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OFFERING CIRCULAR

RIZAL COMMERCIAL BANKING CORPORATION
(A BANKING CORPORATION ORGANIZED AND EXISTING UNDER PHILIPPINE LAWS)

₱3,580,000,000.00 5.50% FIXED RATE COUPON BEARING LONG TERM NEGOTIABLE CERTIFICATES OF TIME DEPOSIT DUE 2024
ISSUE PRICE 100.0% OF FACE VALUE

Rizal Commercial Banking Corporation, (the "Bank") is offering as a first of a number of series, Fixed Rate Coupon-Bearing Long Term Negotiable Certificates of Time Deposit due 2024 with an aggregate principal amount of ₱ 3,580,000,000.00 (the "LTNCDs").

The LTNCDs will bear interest at the rate of 5.50% from, and including, 28 September 2018 to, but excluding, 28 March 2024 and such interest will be payable every 28 March, 28 June, 28 September, and 28 December, beginning on 28 December 2018 (except that the last Interest Payment Date shall be on the Maturity Date).

The LTNCDs will be redeemed at their respective principal amounts on 28 March 2024 (the "Maturity Date") at a Final Redemption Amount equal to 100% of the aggregate nominal amount of the LTNCDs, plus accrued and unpaid interest up to, but excluding, the Maturity Date. Subject to the satisfaction of certain regulatory approval requirements, the Bank may redeem all of LTNCDs in whole and not only in part on any Early Redemption Date prior to Maturity Date at the Early Redemption Amount equal to the Issue Price, plus accrued and unpaid interest up to, but excluding, the date fixed for pre-termination. *See* Terms and Conditions of the relevant LTNCDs.

The LTNCDs will be issued in scripless form in denominations of ₱10,000.00 and with a minimum investment of ₱50,000.00 and will be registered and lodged with the Registrar through the electronic records of the Registrar (the "LTNCD Registry") in the name of the LTNCD Holders. The LTNCDs will be represented by a Master Long Term Negotiable Certificate of Time Deposit which shall be deposited with the Registrar. The LTNCD Registry for the LTNCDs shall serve as the best evidence of ownership with respect to the relevant LTNCDs up to the level of the beneficial LTNCD Holders. However, a written advice will be issued by the Registrar to the relevant LTNCD Holders to confirm the registration of each respective Series of LTNCDs in their name in the relevant LTNCD Registry including the amount and summary terms and conditions of each Series of the LTNCDs (the "Registry Confirmations"). The LTNCDs are and shall be, while outstanding, insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in and subject to PDIC's applicable rules, regulations, terms and conditions, as may be amended from time to time. See *Terms and Conditions of the LTNCDs*.

The Bank is a universal bank that is regulated by the Bangko Sentral ng Pilipinas. The Bank has a Bank Financial Strength Rating of D- and a Long Term Bank Deposits Rating of Ba2 from Moody's Investor Services. A rating is not a recommendation to buy, sell or hold securities or any instrument, and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. None of the LTNCDs are rated.

The LTNCDs are exempt securities pursuant to Section 9(e) of the Securities Regulation Code.

INVESTING IN THE LTNCDS INVOLVES CERTAIN RISKS. SEE "INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE LTNCDS.

SOLE LEAD ARRANGER, SOLE BOOKRUNNER AND SELLING AGENT

SELLING AGENTS

The date of this Offering Circular is 28 September 2018.

For any concerns you may contact us at (02) 877-RCBC (877-7222) or customercontact@rcbc.com. RCBC is supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 708-7087 and email address consumeraffairs@bsp.gov.ph.

The Bank confirms that this document contains all information with respect to the Bank and its subsidiaries and associates (collectively, the "Group") and the LTNCDs which is material in the context of the issue and offering of the LTNCDs, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the LTNCDs, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of LTNCDs, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have not relied on The Hongkong and Shanghai Banking Corporation Limited ("HSBC") (the "Sole Lead Arranger") or any person affiliated with the Sole Lead Arranger in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the LTNCDs other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Sole Lead Arranger.

Except in the case of RCBC Savings Bank, each of the Sole Lead Arranger and the other Selling Agents is a third party that has no subsidiary or affiliate or any other relationship with the Bank that would undermine its independence. RCBC Savings Bank, however, has represented and warranted that it has in place sufficient corporate governance procedures such that its affiliation with the Bank would not undermine its independence as a Selling Agent.

No representation or warranty, express or implied, is made by the Sole Lead Arranger as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of LTNCDs shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof.

None of the Bank, the Sole Lead Arranger or any of their respective affiliates, associates or representatives is making any representation to any purchaser of LTNCDs regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the LTNCDs for an indefinite period. You should consult with your own advisers as to the legal, tax, business, financial and related aspects of a purchase of LTNCDs.

This document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the LTNCDs must comply with all applicable laws and regulations in force in the jurisdiction in which it purchases or offers to purchase such LTNCDs, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such LTNCDs under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor the Sole Lead Arranger shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and regulations of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and regulations that may affect them. See "Distribution and Sale".

Conventions

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government" herein are references to the Government of the Philippines. All references to "United States" or "U.S." herein are to the United States of America. Unless otherwise specified or the context otherwise requires, references herein to "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America and references herein to "Pesos", "₱", and "PHP" are to the lawful currency of the Republic of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Forward-looking Statements

All statements contained in this Offering Circular that are not statements of historical fact constitute "forward-looking statements". Some of these statements can be identified by forward-looking terms, such as "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "plan", "will" and "would" or similar words. However, these words are not the exclusive means of identifying forward-looking statements. All statements regarding the Group's expected financial condition and results of operations, business, plans and prospects are forward-looking statements. These forward-looking statements include statements as to the Group's business strategy, revenue and profitability, planned projects and other matters discussed in this Offering Circular regarding matters that are not historical fact. These forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors that may cause the Group's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements or other projections.

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OFFERING CIRCULAR SUMMARY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. It is recommended that each prospective LTNCD holder reads this entire Offering Circular carefully, including the Bank's consolidated financial statements and related notes (the "Financial Statements") and "Investment Considerations".

Description of the Bank

The Bank is a prominent universal bank in the Philippines which provides a wide range of banking and financial products and services to large corporate, middle market, multinational companies in special economic zones, small-and-medium enterprises ("SMEs") and retail customers, including overseas Filipino workers ("OFWs") and the microfinance sector, as well as to the Government, Government agencies, LGUs and Government-owned and –controlled corporations in the Philippines. The Bank offers commercial, corporate and consumer lending, deposit and bancassurance products, treasury and trust products, Wealth Management, cash management and remittance services. The Bank and its subsidiaries are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans and mortgage/housing loans), microfinance, remittance, leasing, foreign exchange and stock brokering. As of 31 March 2018, the Bank was the eighth largest private domestic commercial bank in the Philippines in terms of total assets, based on the published statements of financial position. In terms of number of branches, the Bank ranked sixth in the Philippines, with a country-wide total of 508 branches as of 31 March 2018, including 35 extension offices.

As of 31 March 2018, the Bank's consolidated total resources and equity amounted to ₱ 585,712.00 million and ₱ 67,958.00 million, respectively. The Bank's consolidated profit before tax and net profit for the three months ended 31 March 2018 amounted to ₱ 1,394.47 million and ₱ 1,133.47 million, respectively.

As of 31 March 2018, the Bank had a market capitalisation on the PSE of ₱ 63.91 billion. The Bank's consolidated Tier 1 capital adequacy ratio and total capital adequacy ratio were 11.78% and 14.61%, respectively, as of 31 March 2018.

The Bank offers commercial, corporate and consumer banking products and services throughout the Philippines, as well as treasury, cash management and remittance services.

The Bank's medium term strategy is to grow its loan portfolio. For the three months ended 31 March 2018, the Retail Banking Segment, which provides a range of banking products and services mainly sold through the Bank and its subsidiaries, was the largest contributor to its net income.

The Bank's CBG focuses on leading Philippine and multinational corporations, Filipino-Chinese businesses, and international corporate clients in special economic zones. Through its current affiliation with YGC and past affiliation with UFJ, it has established long-standing relationships with Japanese companies in various special economic zones in the country.

The Bank's Retail Banking Group ("RBG") provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide ATM network.

The Bank also provides a full range of consumer banking products and services in the Philippines, primarily through its subsidiary, RCBC Savings Bank ("RSB"). The Bank's international operations consist of its majority-owned subsidiary RCBC International Finance Limited and its subsidiary, RCBC Investment Ltd., in Hong Kong. The Bank's relationship with other banks, exchanges and other international money transfer agencies has strengthened its remittance business used primarily by OFWs. The Bank estimates it had an approximate 4.93% share of the remittance business in the Philippines as of 31 December 2017, based on remittance volumes published by the BSP.

In 2017, the Bank received various awards for its credit card products, including, Highly Commended Best Card Offering-Southeast Asia for its YourCash Loan Feature and Best Card Design featuring its 4wave vector card layout at the 4th Annual Cards & Electronic Payments International Asia Awards 2017, and Best Loyalty and Rewards Program for its Diamond Platinum Mastercard's Diamond Cares Program at The Mastercard Innovation Forum Awards 2017. The Bank also received the Infra Deal of the Year 2016 award from Project Finance International, Best Project Finance Deal of the Year 2016 award from Alpha South East Asia and Investment House Association of the Philippines, Top 5 Corporate Issue Manager/Arranger recognition from the Philippine Dealing and Exchange Corporation, and Best in Private Banking award from Acquisition International ("**AI**") Global Awards.

RECENT DEVELOPMENTS

Adoption of Philippine Financial Reporting Standards 9 (PFRS 9)

On 28 July 2014, the Bank's Board of Directors ("BOD") approved the early adoption of PFRS 9 *Financial Instruments* (2009, 2010 and 2013 versions) subject to favorable outcome of an in-depth analysis. After completion of such analysis, the BOD, in its meeting held last 27 October 2014 gave its approval to finally proceed with the early adoption of PFRS 9. The BOD also approved the Business Models developed by the Bank to document the strategies in managing its portfolio of financial instruments.

The Bank's subsidiaries aligned their policies with the Bank and also early adopted PFRS 9. The Group chose 1 January 2014 as the date of initial application.

The actual entries on PFRS 9 adoption were reflected in December 2014 as required by BSP Circular No. 708 and amended by BSP Circular Nos. 733 and 761. As required by PAS 34 Interim Financial Reporting, the September 2014 financial statements have been restated to reflect the balances under PFRS 9 to be comparable with the September 2015 balances.

2020 Senior Notes Issuance

On 21 January 2015, the Bank issued unsecured Senior Notes amounting to USD 200 million maturing on 22 January 2020 (the "2020 Senior Notes"). The 2020 Senior Notes bear interest at 4.25% per annum payable semi-annually and was issued out of the Bank's USD 1 billion Medium Term Note ("MTN") Programme. On 10 February 2015, the Bank reopened its 2020 Senior Notes and issued a second tranche amounting to USD 43 million. The second tranche was a further issuance of, and was consolidated and formed part of a single series with the earlier issuance bringing the aggregate amount outstanding of the 2020 Senior Notes to USD 243 million. The 2020 Senior Notes were used to finance operations and for general corporate purposes, including the refinancing of the Bank's USD 250 million 6.25% Senior Notes due on 9 February 2015.

Ratings Increase of RCBC

On 22 May 2015, Moody's Investors Service upgraded the long-term and short-term deposit ratings of RCBC to Baa3/P-3 from Ba2/NP. Moody's also upgraded RCBC's senior unsecured debt, senior unsecured euro medium term note programme, non-cumulative preferred stock and other short-term ratings to Baa3, (P)Baa3, B1(hyb) and (P)P-3 from Ba2, (P)Ba2, B3(hyb) and (P)NP respectively.

Early Redemption of Hybrid Tier 1 Notes

The Board of Directors, in its meeting held on 30 March 2015, approved the early redemption of the Bank's USD 100 Million 9.875% Non-Cumulative Step-up Perpetual Securities (the "Hybrid Tier 1 Notes") pursuant to the exercise of a Regulatory Event Redemption Call as permitted by the terms and conditions of the Hybrid Tier 1 Notes. The early redemption was approved by the Bangko Sentral ng Pilipinas ("BSP") on 21 May 2015.

The Hybrid Tier 1 Notes was early redeemed on 24 July 2015.

2021 Senior Notes Issuance

On 2 November 2015, the Bank issued unsecured Senior Notes amounting to USD 320 million maturing on 2 February 2021 (the "2021 Senior Notes"). The 2021 Senior Notes bear interest at 3.45% per annum payable semi-annually, with a short last coupon and was issued out of the Bank's USD 1 billion Medium Term Note ("MTN") Programme. The 2021 Senior Notes were used to finance operations and for general corporate purposes.

RCBC Brand refresh

In July 2017, RCBC spearheaded the brand refresh in order to keep pace with the changing needs of our customers as well as the evolving landscape of the Philippine banking sector. The streamlined and dynamic new look and vibrant communication materials are intended to reach a wider audience set, including the millennial segment. The bank also wanted to strengthen its position as a bank that can enable customers to achieve their dreams with the right products and services that fit their needs. The brand refresh will be communicated in above the line media, digital touch points and the branches.

2023 Senior Notes Issuance

On 15 March 2018, the Bank issued unsecured Senior Notes amounting to USD 300 million maturing on 16 March 2023 (the "2023 Senior Notes"). The 2023 Senior Notes bear interest at 4.125% per annum payable semi-annually and was issued out of the Bank's USD 2 billion Medium Term Note ("MTN") Programme. On 20 April 2018, the Bank reopened its 2023 Senior Notes and issued a second tranche amounting to USD 150 million. The second tranche was a further issuance of, and was consolidated and formed part of a single series with the earlier issuance bringing the aggregate amount outstanding of the 2023 Senior Notes to USD 450 million. The 2023 Senior Notes were used to finance operations and for general corporate purposes.

Stock Rights Offering

On July 16, 2018, the Bank's Stock Rights Offering of 535,710,378 million shares were listed in the Philippine Stock Exchange (PSE) and the gross proceeds amounting to P14,999,890,584 were booked on the same date. The total issued and outstanding capital stock of the Bank after the Stock Rights Offer is 1,935,628,775.

USD Syndicated Loan

On 18 August 2018, RCBC signed and closed a USD 300 million syndicated loan facility with a diverse group of international banks. The facility was fully drawn on 28 August 2018 and will mature on February 26, 2021.

2Q 2018 Financials

RCBC's quarterly unaudited unreviewed consolidated financial information as at and for the six months ended 30 June 2018 (the "**2nd Quarter Financials**") are not contained in this Offering Circular. The 2nd Quarter Financials, which have been published RCBC on the Philippine Stock Exchange in August 2018 have not been and will not be subject to any audit or review. The 2nd Quarter Financials do not and will not form part of this Offering Circular and should not be relied upon by any prospective investors. In addition, such financial information should not be taken as an indication of the expected financial condition, business, results of operations and results of the Group for the full year ending 31 December 2018. Potential investors are advised to refer to the financial information contained in this Offering Circular and consider carefully all of the information including but not limited to the risks and uncertainties described above prior to making any investment decisions.

A copy of the 2nd Quarter Financials is available at RCBC's website: https://www.rcbc.com/Others/company_disclosure

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected financial information has been derived from the audited consolidated financial statements of the Bank and its subsidiaries as at and for the years ended 31 December 2015, 2016 and 2017. The Bank's audited consolidated financial statements for the years ended 31 December 2015, 2016 and 2017 have been prepared in accordance with Financial Reporting Standards in the Philippines for Banks.

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

Consolidated Statements of Profit or Loss (₱ million)

(₱ millions)	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(₱ millions)				
INTEREST INCOME					
Loans and receivables	17,462	19,442	21,956	5,054	6,271
Trading and investment securities	3,880	3,269	2,784	583	599
Others	178	426	378	144	36
	21,520	**23,137**	**25,118**	**5,781**	**6,906**
INTEREST EXPENSE					
Deposit liabilities	2,992	3,269	3,959	933	1,264
Bills payable and other borrowings	2,951	4,161	3,138	701	825
	5,943	7,430	7,097	1,634	2,089
NET INTEREST INCOME	**15,577**	**15,707**	**18,021**	**4,147**	**4,817**
IMPAIRMENT LOSSES — NET	**2,350**	**1,770**	**2,155**	**333**	**457**
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	**13,227**	**13,937**	**15,866**	**3,814**	**4,360**
OTHER OPERATING INCOME					
Service fees and commissions	3,473	3,196	3,138	870	794
Trading and securities gains (losses) — net	1,327	1,619	900	38	—
Trust fees	286	294	279	69	68
Foreign exchange gains — net	260	276	798	147	344
Share in net earnings of subsidiaries and associates	93	131	92	28	4
Miscellaneous — net	1,216	1,598	1,893	473	524
	6,655	**7,114**	**7,100**	**1,625**	**1,734**
TOTAL OPERATING INCOME	**19,882**	**21,051**	**22,966**	**5,439**	**6,094**
OTHER OPERATING EXPENSES					
Employee benefits	4,731	5,408	6,037	1,470	1,575
Occupancy and equipment-related	2,607	2,871	3,165	756	791
Depreciation and amortization	1,611	1,766	1,914	460	454
Taxes and licenses	1,437	1,840	1,821	432	558
Miscellaneous	4,675	5,470	4,878	1,082	1,322
	15,061	**17,355**	**17,815**	**4,200**	**4,700**
PROFIT BEFORE TAX	**4,821**	**3,696**	**5,151**	**1,239**	**1,394**
TAX EXPENSE (INCOME)	**(307)**	**(174)**	**841**	**236**	**261**
NET PROFIT	**5,128**	**3,870**	**4,310**	**1,003**	**1,133**
ATTRIBUTABLE TO:					
PARENT COMPANY SHAREHOLDERS	**5,129**	**3,868**	**4,308**	**1,002**	**1,132**
NON-CONTROLLING INTERESTS	**(1)**	**2**	**2**	**1**	**1**
	5,128	**3,870**	**4,310**	**1,003**	**1,133**
EARNINGS PER SHARE					
Basic and Diluted	3.07	2.76	3.08	2.87	3.24

Consolidated Statements of Financial Position

	Year ended December 31,			Three months ended March 31,
	2015	2016	2017	2018
	(₱ millions)			
RESOURCES				
Cash and other cash items	14,070	15,176	14,693	13,797
Due from the Bangko Sentral ng Pilipinas	50,617	66,520	58,801	57,109
Due from other banks	19,701	25,293	19,818	22,159
Loans and receivables arising from reverse repurchase agreement	—	7,889	9,831	8,479
Trading and investment securities — net	111,201	75,622	72,932	88,679
Loans and receivables — net	299,119	306,167	354,243	371,981
Investments in and advances to subsidiaries and associates — net	363	383	417	419
Bank premises, furniture, fixtures and equipment ” net	7,602	8,876	8,946	8,667
Investment properties — net	3,370	3,229	3,399	3,584
Deferred Taxes	1,222	2,177	1,896	1,950
Other resources — net	8,796	9,861	9,012	8,888
TOTAL RESOURCES	**516,061**	**521,193**	**553,988**	**585,712**
LIABILITIES AND EQUITY				
Deposit liabilities	342,362	353,077	388,412	394,614
Bills payable	49,404	37,643	43,967	50,464
Bonds payable	39,364	41,595	28,060	44,930
Subordinated debt	9,936	9,952	9,968	9,973
Accrued interest, taxes and other expenses	4,453	4,823	4,185	4,531
Other liabilities	12,413	11,970	12,369	13,242
TOTAL LIABILITIES	**457,932**	**459,060**	**486,961**	**517,754**
EQUITY				
Attributable to:				
Parent Company Shareholders	**58,105**	**62,107**	**66,999**	**67,931**
Non-Controlling Interests	**24**	**26**	**28**	**27**
	58,129	**62,133**	**67,027**	**67,958**
TOTAL LIABILITIES AND EQUITY	**516,061**	**521,193**	**553,988**	**585,712**

Selected Financial Ratios

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
Return on assets[1]	1.09%	0.77%	0.82%	0.79%	0.81%
Return on shareholders' equity[2]	9.33%	6.42%	6.72%	6.47%	6.82%
Net interest margin[3]	4.15%	4.06%	4.25%	4.21%	4.07%
Cost-income margin[4]	67.74%	76.05%	70.92%	72.78%	71.70%
Loans-to-deposits[5]	86.74%	86.60%	90.84%	86.20%	96.16%
Tier 1 capital adequacy ratio[6]	12.55%	12.89%	12.45%	12.49%	11.78%
Total capital adequacy ratio[7]	15.72%	16.16%	15.46%	15.62%	14.61%
Total equity-to-total assets[8]	11.26%	11.92%	12.10%	12.06%	11.60%
Total non-performing loans to-total loans — excluding interbank loans[9]	0.78%	0.99%	1.27%	1.39%	1.18%
Total non-performing loans-to-total loans -including interbank loans[10]	0.78%	0.99%	1.27%	1.38%	1.16%
Allowances for loan impairment losses to total gross loans[11]	1.92%	2.29%	2.13%	1.96%	2.21%
Allowances for loan impairment losses-to-total non-performing loans[12]	105.23%	111.33%	94.94%	79.61%	100.05%
Earnings per share (₱)[13]	3.07	2.76	3.08	2.87	3.24

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

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

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

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

(5) Total gross loans divided by total deposits.

(6) Tier I capital divided by total risk-weighted assets.

(7) Total capital divided by total risk-weighted assets.

(8) Total capital funds divided by total resources.

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

(10) Total non-performing loans divided by total loans including interbank loans.

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

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

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

INVESTMENT CONSIDERATIONS

An investment in the LTNCDs involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the LTNCDs. The Bank's business, financial condition and results of operations could be materially adversely affected by any of these investment considerations. The market price of the LTNCDs could decline due to any one of these risks, and all or part of an investment in the LTNCDs could be lost. The following discussion is not intended to be a comprehensive description of the risks and other factors and is not in any way meant to be exhaustive. Prospective LTNCD holders are encouraged to make their own independent legal, tax, financial, and business examination of the Bank, the LTNCDs, and the market. Neither the Bank nor the Sole Lead Arranger makes any warranty or representation on the marketability or price on any investment in the LTNCDs.

CONSIDERATIONS RELATING TO THE PHILIPPINES

Political instability in the Philippines could destabilize the country and may have a negative effect on the Bank.

The Philippines has from time to time experienced severe political and social instability, including acts of political violence. These include the impeachment of former President Joseph Estrada in 2001, his removal from the office of the President, his further conviction of plunder and eventual pardon by his successor, former President Gloria Macapagal-Arroyo. The administration of President Arroyo itself was the subject of two unsuccessful coup d'états. It was also during President Arroyo's term that the bloodiest incident of political violence and of violence directed at journalists in the Philippines' recent history occurred. In 2009, 100 armed men allegedly affiliated with the Ampatuan political family murdered 58 persons, including members of the Mangundadatu family (the Ampatuans' political rivals in the province), lawyers, journalists and aides accompanying them, and motorists whose vehicles were behind the Mangundadatus' vehicles.

In 2011, the Philippine House of Representatives impeached Renato Corona, Chief Justice of the Supreme Court of the Philippines on the basis of improperly issuing decisions that favored former President Arroyo, as well as failure to disclose certain properties, in violation of rules applicable to all public employees and officials. On 29 May 2012, the Senate of the Philippines acting as an impeachment court, found the former Chief Justice guilty of impeachable acts.

In July 2013, a major Philippine broadsheet exposed a scam involving the diversion and misuse of the Priority Assistance Development Fund by some members of Congress through a pseudo-development organization headed by Janet Lim Napoles. As a result, a number of investigations, including one in the Senate of the Philippines, have been launched to determine the extent of the diversity of the Priority Assistance Development Fund and the Government officials and the private individuals responsible for the misappropriation of public funds. Recent news reports also claim that royalties earned by the Philippine Government from the Malampaya gas field were also lost to the scam. On 16 September 2013, cases of plunder and malversation of public funds were filed with the Office of the Ombudsman against Janet Lim Napoles, three senators, a few members of the House of Representatives, and other government personnel.

On 28 April 2014, the Philippines and U.S. officials signed the Enhanced Defense Cooperation Agreement shortly before the visit to the Philippines of U.S. President Barack Obama. This agreement is intended to foster the implementation of the Philippines and U.S. Mutual Defense Treaty and to allow a greater U.S. military presence in the Philippines. Activists criticized the move and held protests and some lawmakers argued that there was a lack of transparency in the preparation and signing of the agreement.

The Philippine Presidential elections were held on 9 May 2016, and on 30 June 2016, Rodrigo Roa Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending, and countryside development, among others. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government was likewise targeted to be achieved in two years. In November 2017, however, the Philippine government terminated peace talks with communist rebels when President Duterte issued Proclamation No. 360 which declared the formal termination of peace negotiations with the National Democratic Front-Communist Party of the Philippines-New People's Army. President Duterte cites that the communist rebels failed to show sincerity and commitment in pursuing genuine and meaningful peace negotiations as they still continue to engage in acts of violence and hostilities amid the negotiations. On the other hand, in July 2018, the Philippine Congress passed and President Duterte signed the so-called Bangsamoro Basic Law (BOL) which will create the Bangsamoro Autonomous Region (BAR) in the Philippines' southern island of Mindanao. The BOL is the result of a decades-long peace negotiations between Muslim rebel groups (primarily the Moro Islamic Liberation Front) and the Philippine Government and grants, among others, greater fiscal autonomy and incentives to Muslim Mindanao. It is expected that the signing of the BOL and the creation of the BAR will end rebellion in Mindanao as part of the deal for its signing was the decommissioning of Moro Islamic Liberation Front troops and the creation of

in its stead of a political party which will be involved in the governance of the BAR.

Since assuming his post, President Duterte has waged a supposed all-out war against illegal drugs. Led by the Philippine National Police, the government has continued to extensively pursue thousands of drug suspects all over the country. As of 31 January 2017, police data show that there have been 43,593 police operations conducted; 53,025 drug personalities arrested; 7,069,095 houses visited; and a total of 1,179,462 suspects have surrendered. The drug war, however, has been heavily criticized for having resulted in a spate of killings in all parts of the Philippines. As of May 2018, it was reported that at least 4,729 suspects have been killed in police anti-drug operations as of May 2018. Human rights organizations, however, estimate the actual number to be around 20,000. Philippine National Police documents also reveal that since the drug war started on 1 July 2016 and up to 11 June 2018, there have been 23,518 Homicide Cases Under Investigation (HCUI) recorded, which is equivalent to an average of 33 killings per day. Church leaders and many civil society organizations have called an end to the drug war but the extensive police drug operations continue to this date.

On 29 June 2016, son of former dictator Ferdinand E. Marcos and defeated vice presidential candidate Ferdinand Marcos, Jr., filed an election protest against the election of Vice President Leni Robredo. The recount of ballots for the electoral protest began on 19 March 2018 and it is uncertain when the results of such recount will come out. Notably, however, President Duterte has publicly stated that if Marcos wins his election case against Robredo, he will likely step down as President to pave the way for a Marcos Presidency.

On 23 May 2017, the government declared martial law throughout Mindanao after extremist militants assaulted and occupied portions of the City of Marawi. In a special joint session convened on 22 July 2017, both Houses of Congress voted to grant the request of President Duterte to extend martial law in Mindanao until the end of 2017, as the rebellion could not be completely quashed over the initial 60-day period of martial law. On 13 December 2017, the Philippine Congress voted to extend martial law in Mindanao until the end of 2018. This second extension was affirmed by the Philippine Supreme Court in February 2018. With this extension and the suspension of the privilege of the writ of habeas corpus, the military can arrest persons suspected of rebellion without a warrant of arrest and can detain them for three days. Some sectors however are wary of the prolonged extension of the martial law, citing its negative impact on business, tourism, the country's image and investor confidence.

The shift to the federal-parliamentary form of government which was originally targeted to be achieved in two years likewise seems to be in full swing. President Duterte recently created the Consultative Committee (Con-Com) to draft the proposed federal charter. On 9 July 2018, the Con-Com formally turned over its draft federal charter to President Duterte. Under the draft federal charter, the Philippines will be divided into 18 autonomous federal regions which are given more power for self-government than under the present Philippine Constitution. The federal regions are said to be granted greater powers over socioeconomic planning, land use, financial administration and management. The central government, on the other hand, will retain powers over national security and defense, international relations and diplomacy, customs and tariff, federal crimes and implementation of the criminal justice system. In addition to this, the draft federal charter increases the number of Philippine senators from 24 to 36 and Congressmen from 297 to 400. Recently, however, several concerns were raised regarding the financial viability of the proposed shift to federalism. No less than the Philippines' Finance Secretary, Carlos Dominguez, said that he would absolutely vote against the draft federal charter as it could end up as a "financial nightmare". Similarly, Socioeconomic Planning Secretary Ernesto Pernia said that the shift could "wreak havoc" on the Philippine economy. These criticisms came as Filipino economists raised issues on the monetary cost of the proposed shift to federalism and the possibility of hyperinflation due to the expected overspending in the federal regions.

In March 2018, following President Duterte's highly publicized calls for then Chief Justice Maria Lourdes Sereno's ouster, the Committee on Justice of the Philippines House of Representatives approved six articles of impeachment against Sereno on the basis of a complaint filed by a known Duterte ally. In an unprecedented move, however, on 11 May 2018, the Supreme Court of the Philippines en banc voted 8-6 and ousted Chief Justice Maria Lourdes Sereno via a *quo warranto* petition on the basis of an allegedly invalid appointment. The ouster was labelled as political persecution and was heavily marred by controversy as it was not coursed through the constitutional process of impeachment.

There is no guarantee that future events will not cause political instability in the Philippines. Such instability may disrupt the country and its economy, and in turn could materially and adversely affect the Group's business, financial condition and results of operations.

Most of the Group's business activities and assets are based in the Philippines, which exposes the Group to risks associated with the country, including the performance of the Philippine economy.

Historically, the Group has derived a substantial portion of its operating profits from the Philippines and, as such, it is highly dependent on the state of the Philippine economy. Demand for banking services is directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business

activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos in general. Factors that may adversely affect the Philippine economy include but are not limited to:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations;
- foreign exchange controls;
- downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- inflation or increase in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal, economic, social and/or tax policies;
- Government budget deficits;
- a re-emergence of SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Group's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Group's financial position and results of operations, including the Group's ability to grow its asset portfolio, the quality of the Group's assets and its ability to implement the Group's business strategy. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect the Group's business, financial condition or results of operations.

An increase in the number of terrorist activities or acts of violence in the Philippines could negatively affect the Philippine economy and, therefore, the Bank's financial condition and its business

The Philippines has been subject to a number of terrorist attacks in recent years. An increase in the number of terrorist activities or violent crimes in the Philippines could negatively affect the Philippine economy and, therefore, the Bank's financial condition and its business.

The Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network and has been identified as being responsible for kidnapping and terrorist activities in the Philippines. Moreover, isolated bombings have taken place in the Philippines in recent years, mainly in cities in that part of the country. On 28 July 2014, members of Abu Sayyaf attacked and killed 21 Filipino civilians celebrating a religious event in the Province of Sulu.

On 25 January 2011, a bomb was detonated on a bus in the northern city of Makati, Metro Manila, killing five persons. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist groups, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines ("AFP") have clashed with members of several separatist groups seeking greater autonomy, including the MILF and the New People's Army. On 19 October 2011, 19 AFP troops were killed in a fire fight with MILF members in the southern Philippines. On 16 December 2011, five AFP soldiers were killed in a clash with New People's Army members. In July 2013, at least 12 people were killed in a Government clash with the Bangsamoro Islamic Freedom Fighters. These conflicts in the Philippines have been the subject of numerous peace talks and negotiations. The most recent round of peace negotiations took place in November 2012, but no final settlement has been reached. These continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the military, which could destabilize parts of the country and adversely affect the country's economy.

There have also been a number of violent crimes in the Philippines, including the August 2010 incident involving the hijacking of a tour bus carrying 25 Hong Kong tourists in Manila, which resulted in the deaths of eight tourists. This provoked the Hong Kong government to issue a travel warning on the Philippines. Pursuant to discussions between the Hong Kong and Philippine government, the travel warning was lifted on April 2014. On 27 July 2013, six people were killed and more than 40 were wounded when an improvised explosive device exploded in a restaurant filled with doctors after a national convention in the southern port city of Cagayan de Oro. Reports stated that a new jihadist group called "Al Khilafa Al Islamiya" carried out this bombing. In August 2013, a series of bombings occurred in the

cities of Cagayan de Oro and Cotabato City, as well as other areas in Maguindanao and North Cotabato provinces, all located in Mindanao. In September 2013, armed clashes took place between the Moro National Liberation Front and the AFP in Mindanao, with a number of civilians being held hostage.

On 25 January 2015, 44 Philippine National Police Special Action Force commandos who were part of a 392-man operation to kill two terrorists who were among the US' most wanted (Zulkifli Abdhir and Abdulbasit Usman) were killed in clashes with members of the Moro Islamic Liberation Front and Bangsamoro Islamic Freedom Fighters in Mamasapano, Province of Maguindanao. The clash has been labeled as the biggest loss of government elite forces in Philippine history and has resulted in major criticism against the military and police leadership of then President Benigno S. Aquino III.

Then, on 02 September 2016, shortly after President Rodrigo Roa Duterte's election as President, at least 14 people were killed and 60 people injured in a bomb attack in his home city of Davao. The explosion was caused by an improvised explosive device and occurred in a night market near Marco Polo Hotel which was said to be frequented by President Duterte. Soon after the incident, a spokesman for the militant group Abu Sayyaf has claimed responsibility for the attack.

On 23 May 2017, a group aligned with the Islamic State of Iraq and Syria, called the Maute Group, besieged the southern city of Marawi, which has a Muslim-majority population. This prompted President Rodrigo R. Duterte to issue Proclamation No. 216 later that day, declaring martial law and the suspension of the writ of habeas corpus throughout the entire island of Mindanao. On 5 June 2017, opposition legislators filed a petition with the Supreme Court questioning the proclamation's constitutionality, alleging that such was factually baseless, and consequently, should be revoked. After conducting hearings on the petition, the Supreme Court upheld the constitutionality of Proclamation No. 216, by a vote of 11-3-1. According to the Philippine military, the crisis has so far resulted in the deaths of 500 people, mostly militants, as of early July 2017.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Bank's business. The Bank's current insurance policies do not cover terrorist attacks. Any terrorist attack or violent acts arising from, and leading to, instability and unrest, could cause interruption to parts of the Bank's businesses and materially and adversely affect the Bank's financial conditions, results of operations and prospects.

Credit ratings of the Philippines and Philippine companies could materially and adversely affect the Bank and the market or price of the Securities

In May 2014, international credit rating agency Standard & Poor's ("S&P") issued a credit ratings upgrade for the Philippines. The country's long-term sovereign credit rating was upgraded to "BBB" with a stable outlook from "BBB-." This upgrade follows the agency's rating action in May 2013, when it assigned the Philippines an investment-grade rating. In December 2014, Moody's Investor Services ("Moody's") upgraded the Philippines' credit ratings as well to Baa2 with a stable outlook, one notch higher than the Baa3 credit rating it assigned in October 2013. The country has also been granted an investment-grade rating in March 2013 by Fitch.

S&P cited its expected ongoing reforms on a broad range of structural, administrative, institutional, and governance issues to endure beyond the term of the current administration as well as expressed optimism that the gains in revenue generation, spending efficiency and improvements in public debt profile and the investment environment will be sustained under the next administration. S&P also cited the country's strong external liquidity and international investment position coupled with an effective monetary policy framework that has sustained low inflation and interest rate as supportive to the rating upgrade.

Moody's, on the other hand, indicated that the credit ratings upgrade was driven by the country's ongoing debt reduction and improvements in fiscal management, sustained favourable prospects, and limited vulnerability to risks affecting emerging markets. The stable outlook, suggestive of balanced upside and downside risks, are dependent on the country's ability to steadily increase income levels and mobilize greater revenues that would in turn boost government finances. Downward pressure is expected to stem from any emergence of macroeconomic stability, which could worsen fiscal and government debt metrics and erode the country's external payments position.

With investment grade status from three credit rating agencies, the Philippines is now eligible to be part of investment grade indices. These ratings reflect an assessment of the Government's overall financial capacity to pay its obligations and its ability or willingness to meet its financial commitments as they become due. The ratings of the Government directly affect companies residing in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign.

No assurance can be given that international credit rating organisations will not downgrade the credit ratings of the

Philippines or Philippine companies. Any such downgrade could have an adverse impact on liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available and could have a material adverse effect on the Bank.

Ongoing volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants

The ongoing volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries

While a principal objective of Philippine securities laws and the Philippine Stock Exchange ("PSE") rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Bank to have at least two independent directors or such number of independent directors as is equal to 20% of the BOD, whichever is the lower number. The Bank usually has two independent directors. Many other jurisdictions require significantly more independent directors.

Financial statements of Philippine banks are prepared in accordance with PFRS for Banks which requires the use of certain critical accounting estimates. Management of institutions are to use their own judgment to come up with estimates on certain statement of condition and income statement accounts such as, but not limited to, impairment losses on loans and receivables; fair value of derivatives; impairment of available-for-sale and held-to-maturity securities; and realization of deferred income tax assets among others.

The Bank faces risks related to public health epidemics in the Philippines

The outbreak of an infectious disease in the Philippines, Asia or elsewhere, together with any resulting restriction on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in the Philippines or Asia generally and could therefore materially and adversely affect the Bank's business, financial condition and results of operations.

The occurrence of natural catastrophes could adversely affect the Bank's business, financial condition or results of operations

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Group's operations. These factors, which are not within the Group's control, could potentially have significant effects on the Group's branches and operations. During typhoons Ondoy and Pepeng in 2009, typhoon Yolanda in 2013, and Typhoon Glenda in 2014, some of the Group's branches were temporarily closed as the surrounding areas were flooded. Monsoon rains (coupled with Typhoon Henry in 2018) as well as earthquakes (Bohol in 2014) may have similar effects. In 2015, the Philippine Institute of Volcanology and Seismology released its updated map of the Valley Fault System. Several concerns were raised that Metro Manila is due for a powerful earthquake on the basis of the possible movement of the West Valley Fault, a 100-kilometer fault which traverses various parts of Metro Manila and surrounding provinces. It is expected that this possible natural catastrophe will greatly affect the country considering that Metro Manila is highly populated and hosts both the Philippine capital and business districts. While the Group carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Group believes are in line with general industry practices in the Philippines, there are losses for which the Group cannot obtain insurance at a reasonable cost or at all. In addition, the Group carries business interruption insurance. However, should an uninsured loss or a loss in excess of insured limits occur, the Group could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Group's business, financial position and results of operations.

CONSIDERATIONS RELATING TO THE PHILIPPINE BANKING INDUSTRY

The Group's principal businesses are in the highly competitive Philippine banking industry and increasing competition may result in declining margins in the Group's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations. There were a total of 44 domestic and foreign universal and commercial banks operating in the Philippines as of July 2018, according to the BSP.

The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact not only the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, having larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other Philippine banking and financial institutions with significant presence in Metro Manila and large countrywide branch networks;
- foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- continued consolidation in the banking sector.

RCBC Savings Bank, the Bank's savings bank subsidiary, faces similar competitive challenges.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. In addition, the Bank faces intense competition in areas it has identified for growth such as consumer loans and remittances. Increased competition may make it difficult for the Bank to increase the size of its loan portfolio and deposit bases and may cause increased pricing competition, which could have a material adverse effect on its margins, results of operations and financial condition and inhibit the Bank's ability to implement its growth strategy.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- the dependence of the Philippine economy in general on exports for economic growth. In recent years, however, Philippine economic growth has largely been fuelled by personal consumption spending;
- the large foreign debt of the Government, relative to the GDP of the Philippines; and
- the greater volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations.

Philippine banks may experience limited liquidity due principally to a material asset-liability maturity mismatch

As with other Philippine banks, most of the Bank's funding requirements are met through short-term and medium-term funding sources, primarily in the form of time deposits, savings accounts and current accounts. Most of the

Bank's time deposits are for periods of one month or less. As with other Philippine banks, many of the Bank's assets, however, have long-term maturities, creating the potential for funding mismatches. Although, historically, the Bank has been able to roll over most of its deposits on maturity, there can be no assurance that the Bank will continue to be able to do so in the future.

Although the Bank has not experienced liquidity problems in the past, there can be no assurance that the Bank will be able to maintain sufficient liquidity to cover customer withdrawals in the future, especially in the event of a future economic crisis. If a substantial number of the Bank's depositors do not roll over deposited funds upon maturity, or decide to withdraw their current account deposits, the Bank's liquidity position would be adversely affected. In particular, the Bank may have to rely on other sources of financing which may not be available at commercially attractive terms or at all. Any failure to obtain adequate funding, or a significant increase in funding costs, would have a material adverse effect on the Bank's liquidity, financial condition and results of operations.

The Bank's ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries

The Bank is exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of the Bank's risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within the Bank may be incomplete or obsolete.

The Bank may also have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

Philippine banks are vulnerable to volatility in interest rates

Like most financial institutions, Philippine banks realise income from the margin, or "spread", between interest-earning assets, such as investments and loans, and interest paid on interest-bearing liabilities, such as deposits and borrowings. The business of Philippine banks, including the Bank, is subject to fluctuations in market interest rates as a result of mismatches in the repricing of assets and liabilities. These interest rate fluctuations are neither predictable nor controllable and may have a material adverse impact on the operations and financial condition of Philippine banks such as the Bank.

There is limited independent information on borrowers' credit history in the Philippines

Although the Philippines has a central credit agency, namely the Credit Information Corporation, which keeps information on Philippine borrowers' credit history, including information such as timeliness of loan repayments, the coverage and level of detail of information on Philippine borrowers is still fairly limited when compared to the availability of information in more developed countries. The absence of detailed information makes it difficult for Philippine banks to assess the creditworthiness of loan or credit card applicants, which may result in an increase in NPLs, credit card receivables or provisions for losses.

Enforcement difficulties may prevent lenders from recovering the assessed value of collateral when the Bank's borrowers default on their obligations in the Philippines

Philippine banks may not be able to fully recover collateral or enforce any guarantees due, in part, to the legal uncertainties in enforcing such rights. Although the law provides for expedited procedures for the enforcement of certain types of collateral, in practice, lenders generally end up submitting a petition to a Philippine court or face challenges by borrowers which could result in delays that can last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables.

In addition, such collateral may not be insured. In the past, these factors have exposed, and continue to expose lenders in the Philippines, to legal liability while in possession of collateral. The current difficulty of bringing enforcement actions under the Philippine legal system significantly reduces the ability of lenders to realise the value of collateral located in the Philippines and therefore the effectiveness of taking a secured position on loans to Philippine borrowers. In addition, there can be no assurance that lenders will be able to realise the full value, or any value, of any collateral located in the Philippines in a bankruptcy or foreclosure proceeding or otherwise, especially as the value of secured assets such as real property and inventory has been, and may continue to be, negatively affected by the current political, economic and social conditions in the Philippines.

CONSIDERATIONS RELATING TO THE BANK

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility

As of 31 March 2018, the Bank held ₱ 6.43 billion in financial assets at fair value through profit or loss, ₱ 8.75 billion in financial assets at fair value through other comprehensive income and ₱ 73.50 billion in financial assets at amortized cost. The Bank's income from these activities are subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates, debt prices, stock market fluctuations, and economic, political and other conditions that may fluctuate from time to time. Given potential and possible unfavorable conditions in the global financial markets, there can be no assurance that, in the future, the Bank will be able to realize a stable amount of trading and foreign exchange gains, that it will not incur a loss from such trading or that it will hold unto its trading and investment securities to realize interest income, any or all of which could have a material adverse effect on the Bank's future net income.

As of 31 March 2018, 64.50% of the Bank's trading and investment securities are held in the form of Government securities (including Government securities which are measured at amortized cost). Such instruments are subject not only to market fluctuations but also to political or economic changes in the Government's sovereign debt rating. There can be no assurance that the rating of Philippine sovereign debt will not be subject to downgrades or negative outlooks. Furthermore, should the Government be unable to service its obligations, the Bank would suffer a material adverse impact on its financial condition.

With the Bank's adoption of the full version of the Philippine Financial Reporting Standards 9 ("PFRS 9") effective 1 January 2018, its investment securities may be classified as either Hold to Collect ("HTC"), which are measured at amortized cost, Fair Value Through Profit and Loss ("FVTPL") or Fair Value Through Other Comprehensive Income ("FVOCI"), which are measured at market value. HTC securities are those that are held with the objective of holding the instruments to collect contractual cash flows. FVOCI securities are those that are held to collect contractual cash flows and to sell prior to contractual maturity, and the terms of the securities give rise on specified dates to cash flows are solely payment of principle and interest. FVTPL securities are those that are held in order to sell them prior to contractual maturity and realize changes in fair value. The Bank sells HTC securities whenever permitted by the Bank's business model and allowed under PFRS 9. The Bank may change its business model and decide that securities previously classified as HTC should instead be reclassified as FVTPL. Although changes in the Bank's business model are expected to be rare, any change could materially alter the values of the securities reflected in the financial statements and could add to the volatility of the Bank's income.

The Bank may face increasing levels of non-performing loans and provision for impairment of assets

The Bank's results of operations have been, and continue to be, negatively affected by the level of its non-performing loans ("NPLs"). For the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018, the Bank made charges to income provisions for impairment of ₱ 2,350.00 million, ₱ 1,770.00 million, ₱ 2,155.00 million, ₱ 333.00 million and ₱ 457.00 million, respectively, representing 15.09%, 11.27%, 11.96%, 8.43% and 9.49% of the Bank's net interest income for these periods.

For the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018, the Bank's net NPLs totaled ₱ 2,305.00 million, ₱ 3,032.00 million, ₱ 4,491.00 million, ₱ 4,349.00 million and ₱ 4,387.00 million, respectively, representing 0.78%, 0.99%, 1.27%, 1.39% and 1.25%, respectively, of the Bank's total loan portfolio. For the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018, the Bank's NPL coverage ratio, defined as provisions divided by NPLs, was 101.83%, 93.78%, 82.51%, 79.61% and 100.05%, respectively.

Ongoing volatile economic conditions in the Philippines, including volatile foreign exchange and interest rates, could adversely affect many of the Bank's customers, causing uncertainty regarding their ability to fulfill their loan obligations, thus, significantly increasing the Bank's exposure to credit risk. These and other factors could result in an increased number of NPLs in the future and would require the Bank to book additional provisions for impairment on loans.

Moreover, in 2013, the Bank has adopted new credit rating models for certain of its businesses, including adoption of the S&P Credit Risk Rating scorecard (Generic Corporate, SMEs, Real Estate, Utilities and Financial Institution scorecards). There is no guarantee that these new credit rating models will improve the Bank's credit assessment of its potential borrowers, nor that these new credit rating models will not result in worse credit assessment. If the Bank's new credit assessment models do not perform up to the Bank's expectations, the Bank may experience increasing level of NPLs.

While the Bank has instituted more aggressive NPL recovery, resolution and disposal activities and stricter credit processes, there can be no assurance that the Bank will be successful in reducing its NPL levels. An increase in the Bank's NPLs could have a material adverse effect on its financial condition, capital adequacy and results of operations. Part of the Bank's NPL disposal strategy is to continue to sell NPLs to special purpose vehicles ("SPVs").

The Bank may not be able to sell its NPLs at commercially reasonable terms, if at all. In addition, certain of the Bank's past sales to SPVs have not sufficiently transferred the risks and rewards of the sold NPLs to the SPVs in accordance with the applicable accounting standards. If the Bank were to include these NPLs in its statement of condition, it would be required to increase its impairment losses and its financial condition and results of operations would be negatively impacted.

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

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

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

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

Moreover, the Bank and certain of its current and former employees have been involved in investigations, regulatory proceedings and litigation stemming from the BOB Incident. As of 18 November 2016, the AMLC had filed criminal complaints against current and former employees of the Bank for violations of Section 4(f) of R.A. No. 9160, as amended in connection with the BOB Incident. As of March 2018, current members of the Bank's senior management and employees, namely Ismael S. Reyes, Bridgette R. Capiña and Romualdo S. Agarrado, as well as several former Bank employees, remain subject to ongoing proceedings in connection with the BOB Incident. In the future, there may be other investigations, enforcement actions, regulatory proceedings or litigation arising from the BOB Incident. For example, on 7 February 2018, news sources reported that a deputy governor to the Bank of Bangladesh announced that the Bangladesh central bank intends to file a lawsuit in New York in relation to the BOB Incident before May 2018, and that the Bangladesh central bank has requested that the Federal Reserve Bank of New York join in the lawsuit. It is also possible that U.S. or other regulatory authorities may seek to bring charges or enforcement actions in the United States against the Bank stemming from the BOB Incident. Through the date of this Offering Circular, the Bank has not received any formal notice of any lawsuit or actions brought by the Bank of Bangladesh or other parties, nor has it received any information request from U.S. or other authorities in relation to the BOB Incident.

However, should a lawsuit or enforcement action be brought by any party in connection with the BOB Incident, the Bank cannot guarantee that it would prevail, and it could be subject to significant monetary penalties, sanctions or penalties, which may exceed the USD 81.00 million quantum of the unauthorized fund transfers and may not be covered by insurance. Moreover, there can be no assurance that the BSP or other regulators or government agencies will not impose additional penalties or requirements on the Bank as a result of such proceedings, including extending or increasing current permanent or ongoing requirements. Even if the Bank were to prevail in any potential litigation or enforcement actions in connection with the BOB Incident, it may nonetheless suffer reputational harm from such a lawsuit or regulatory proceeding, and/or it may have to spend significant amounts of management time and financial resources defending itself.

The Bank's provisioning policies in respect of non-performing loans require significant subjective determinations which may increase the variation of application of such policies

BSP regulations require that Philippine banks classify non-performing loans based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months a payment is in arrears, the type of loan, the terms of the loan, and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

Furthermore, the level of loan loss provisions which the Bank recognizes may increase significantly in the future due to the introduction of new accounting standards. The level of provisions currently recognized by the Bank in respect of its loan portfolio depends largely on the estimated value of the collateral coverage for the portfolio. The level of the Bank’s provisions may not be adequate to cover increases in the amount of its non-performing loans, or any deterioration in the overall credit quality of the Bank’s loan portfolio, including the value of the underlying collateral. In particular, the amount of the Bank’s reported loan losses may increase in the future as a result of factors beyond the Bank’s control.

Certain accounting standards have been adopted in the Philippines based on International Financial Reporting Standards, which require the Bank’s loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral. These new accounting standards may result in the Bank recognizing significantly higher provisions for loan loss in the future. The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations which may expose the Bank to significant losses.

While the Bank believes its current level of provisions and collateral position are more than adequate to cover its non-performing loan exposure, an unexpected or significant increase in non-performing loan levels may result in the need for higher levels of provisions in the future.

The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses

For the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018, the Bank’s secured loans represented 52.41%, 51.11%, 47.24%, 48.94% and 50.90%, respectively, of the Bank’s total loans. As of those dates, 26.78%, 25.75%, 31.70%, 27.56% and 25.69%, respectively, of the Bank’s total loans consisted of real estate properties as collateral.

The Bank may not be able to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose on collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank’s ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank carries the value of the foreclosed properties at the lower of the bid price and the loan balance plus accrued interest at the time of such foreclosures. While the Bank, at each statement of condition date, provides impairment on its foreclosed properties in accordance with applicable accounting standards and BSP regulations, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realization.

The value of the Bank's collateral may be overstated and may decline in the future

The value of the Bank's collateral may be overstated and may not accurately reflect the net recovery it is likely to receive from the sale of such collateral. Certain of the Bank's collateral valuations may be outdated and may not accurately reflect the current market value of its collateral. In certain instances, no purchasers may exist for a particular type of collateral, thereby rendering it effectively worthless. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, could mean that the Bank's loan loss provisions for the relevant loans are inadequate and could require an increase in such provisions. Any increase in the Bank's provisions would adversely affect its results of operations and financial condition as well as the Bank's capital adequacy ratio, which could result in a need for the Bank to raise additional capital.

The Bank's focus on customers with lower incomes and the micro-financing business exposes the Bank to a high degree of credit risk and may have a detrimental effect on both the Bank's loan and deposit base as well as its NPLs

The Bank is entering into the micro-financing business and is focusing on lending to customers with lower incomes in order to grow its business and increase its net interest margin. Lending to customers in this sector and conducting a micro-finance business both have specific requirements for risk management procedures, guidelines, systems, credit appraisal monitoring and loan recovery. Given the limited availability of independent financial information on Philippine borrowers, the Bank is exposed to higher credit risk in the consumer and micro-finance sectors as compared to banks in developed markets. Aggressive loan pricing by competitors and interest rate ceilings imposed by the Government may result in a lower net interest margin. In addition, slower economic growth and high inflation may cause significant deterioration in the purchasing power of consumers, thus resulting in a reduced loan demand and higher NPLs. The Bank's inability to manage these risks associated with this customer segment could have a material adverse effect on its business, financial condition and results of operations.

The Bank may not be successful in implementing new business strategies or penetrating new markets

The Bank's business strategy includes expanding the range of its products and services in order to diversify its revenue sources. For example, the Bank has targeted overseas remittances and loans to SMEs as key areas of growth. The Bank believes its strategy is necessary to enable the Bank to increase loans in a sustained and prudent manner, to grow a stable deposit base and to maintain its net interest margin and profitability. In addition, the Bank, through its subsidiary RSB, is expanding its consumer loan operations. Expansion of the Bank's business activities to increase the number of financial products and services that it offers exposes it to a number of risks and challenges including, among others, the following:

- New and expanded business activities may require greater marketing and compliance costs than the Bank's traditional services;
- New and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- The Bank may fail to identify and offer attractive new services in a timely fashion, putting it at a disadvantage with competitors;
- The Bank's competitors may have substantially greater experience and resources for the new and expanded business activities and thus the Bank may not be able to attract customers from its competitors;
- The Bank may need to enhance the capability of its IT systems to support a broader range of activities; and
- Economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

The Bank's inability to implement its business strategy could have a material adverse effect on its business, financial condition and results of operations.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios

The Bank, primarily through RSB, has expanded its consumer loan operations. In addition, the Bank continues to endeavor to expand its credit card operations. These developments increase the Bank's exposure to consumer debt and changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's personal loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults, while reducing demand for consumer loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment or other negative macroeconomic factors.

There can be no assurances that the Bank will be successful in its consumer debt operations or that it will not continue to incur losses. Continued losses from consumer debt operations will negatively affect the Bank's results of operations.

The Bank's results may not be indicative of the Bank's future performance

The Bank's results in the future are dependent upon many factors, including among other factors, the Bank's ability to implement its business strategies, economic growth in the Philippines, performance of its loan portfolio and fluctuation in interest rates and exchange rates. There can be no assurance that the Bank will be profitable or will not incur operating losses in the future, which may be significant.

The Bank has a high exposure to the Philippine property market through real and other properties acquired ("ROPA") and its lending to customers in the real estate industry

The Bank has significant exposure to the Philippine property market due to the level of its holdings in ROPA and its loans to customers in the real estate industry. The Bank acquires ROPA when it forecloses on the collateral provided by a borrower. Accordingly, the level of the Bank's ROPA varies based on the level of its NPLs.

The Bank periodically disposes of its ROPA in and through public auctions, sealed bidding and negotiated sales at prevailing market prices. The Philippine property market is highly cyclical, and property prices in general have been volatile. Property prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines and recent political and economic developments. Property prices in recent years have been a function of interest rates and financing costs, with interest rates being at near-record lows and increasing the demand for real estate, resulting in increased property prices. Further, housing backlog in the Philippines has supported demand for residential properties.

To the extent that property values decline in the future, there can be no assurance that the Bank will be able to sell and recover the value of the ROPA stated in the financial statements or that the ability of the Bank's customers in the real estate industry to make timely payment on their loans will not deteriorate. Furthermore, in an extended downturn in the property market, and given the Bank's significant amount of ROPA, it may take a number of years before the Bank is able to realize a significant part of the value of its ROPA. Finally, the Bank is required to recognize annual provisions against ROPA based on the difference between the market value, net of estimated selling costs, and book value.

As a result of these provisioning requirements, if the Bank is unable to dispose of its ROPA, it may be required to recognize levels of provisions in future years which are higher than those currently recognized by the Bank. Furthermore, if the Bank's customers in the real estate industry fail to make timely payment on their loans, the Bank may have to set aside additional provisions for impairment losses. Accordingly, an extended downturn in the Philippine property sector could increase the level of the Bank's provisions set against its ROPA or its loans extended to customers in the real estate industry, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations.

The Bank may have to comply with strict regulations and guidelines issued by regulatory authorities in the Philippines, including the BSP, the Bureau of Internal Revenue ("BIR"), the Securities and Exchange Commission ("SEC"), the PSE, the Anti-Money Laundering Council ("AMLC") and international bodies, including the Financial Action Task Force ("FATF")

The Bank is regulated by, and has reporting obligations to, the BSP. It is also subsidiarily regulated, and has reporting and disclosure obligations to the SEC, the PSE, and the AMLC. The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve. In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and more transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. *See* "Banking Regulation and Supervision."

The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines, could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Group may face potential pressure on its capital due to Basel III

On 17 December 2009, the Basel Committee on Banking Supervision (the "BCBS") proposed a number of fundamental reforms to the regulatory capital framework. On 16 December 2010, the BCBS released two documents entitled "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and "Basel III:

International Framework for Liquidity Risk Management, Standards and Monitoring" and on 13 January 2011 issued a press release entitled "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" (collectively "Basel III"). The proposed reforms will require instruments to comply with the new eligibility criteria in order to obtain regulatory capital treatment and will introduce a deduction approach to regulatory adjustments and treatment of equity investments in non-financial and non-allied undertakings.

On 15 January 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10% on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conversion buffer of 2.5% comprised of CET1 capital, shall also apply.

The revised guidelines would essentially require banks to hold more capital of higher quality. The minimum capital adequacy ratio will remain at 10.0%. As at the date of this Offering Circular, the BSP does not envisage adopting the countercyclical capital buffer, though this remains subject to further review. The full adoption of the new minimum ratios, including the capital conservation buffer, began on 1 January 2014. The regulatory deductions were likewise deducted in full from CET1 on this date. Regulatory capital instruments that were rendered ineligible under the minimum conditions of Basel III qualified as regulatory capital only until the end of 2013.

On 29 October 2014, the BSP issued Circular No. 856 on the Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III (the "Guidelines"). The Guidelines were issued in accordance and essentially aligned with the reform packages proposed by Basel III specifically on global systemically important banks ("GSIBs") and Domestic Systemically Important Banks ("DSIBs"). It was explained that the broad aim of the policies is to reduce the probability of failure of DSIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of DSIBs on the domestic or real economy. It is intended that the submission of data requirements for the identification of DSIBs will take effect starting with 2014 data while compliance with the additional higher loss absorbency requirement was phased in from 1 January 2017 with full implementation envisioned by 1 January 2019.

The systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cutoff under the indicator-based measurement approach shall be classified as DSIBs. In assessing DSIBs, supervisory judgment may also be utilized based on the principles set forth in the circular. Using cluster analysis, DSIBs will be initially be allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually, and DSIBs reallocated as a result.

Banks identified as DSIBs will be required to have higher loss absorbency ("HLA"). This higher requirement is aimed at ensuring that DSIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a DSIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1capital.

The magnitude of additional loss absorbency for the higher populated bucket will be 2.5% of risk-weighted assets at all times, with the initial empty bucket at 3.5% of risk-weighted assets, and 1.5% for the lower bucket. The HLA requirement for DSIBs is envisioned to be on top of the capital conservation buffer (CCB) under BSP Circular No. 781. Transitional arrangements to implement the HLA requirement will be implemented. In the case of banks included in the first list of DIBS (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement was phased-in starting 1 January 2017, with full compliance on 1 January 2019. After the phase-in period, banks identified as DSIBs will have 18 months to comply with the required HLA. The circular likewise imposes capital distribution constraints should a DSIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular).

A DSIB will not be subject to any restriction on distribution if the following conditions are met:

(a) Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;

(b) Compliance with total required CET1 (under the circular) before distribution;

(c) Compliance with minimum capital ratios after distribution. DSIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its Internal Capital Adequacy Assessment Process (ICAAP).

These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a DSIB by the BSP.

There can be no assurance that, after its implementation in 2013, BCBS will not amend the package of reforms described above. The BSP notably accelerated the implementation of Basel III in the Philippines, as compared to the BCBS's standard timeline, by fixing 1 January 2014 for adoption rather than 2019.

There can be no assurance that the Bank will not face increased pressure on its capital in the future to comply with Basel III standards which may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

As of 31 December 2016, according to the BSP, the universal and commercial banking industry's capital adequacy ratio ("CAR") was 16.2% on a consolidated basis and non-consolidated basis. As of 31 March 2017, the Group's and the Bank's CAR was 15.6% as reported to BSP.

The Bank is effectively controlled by one shareholder group, with which it has extensive financial and business connections and the interests of the majority shareholder may not coincide with the interests of the Holders

The Bank is effectively controlled by YGC. As of 31 March 2018, the Yuchengco family, directly or indirectly, primarily through PMMIC owned 42.45% of the Bank's issued and outstanding shares, while other members of YGC owned or controlled an additional 9.65% of the Bank's issued and outstanding shares. There can be no assurance that the interests of YGC will necessarily coincide with the interests of minority shareholders. *See* "Management, Employees and Shareholders".

YGC has been the Bank's controlling shareholder for over 40 years and is closely associated with the Bank. If there is any public perception in the Philippines that the Bank is reliant on the financial condition of YGC, there could be a loss of confidence in the Bank's solvency among its depositors or creditors in the event of deterioration in the financial condition of YGC. In particular, this could result in withdrawals of deposits or a decrease in new deposits beyond levels anticipated by the Bank, or otherwise have a material adverse effect on the Bank's financial condition and results of operation. Furthermore, the Bank relies on its relationship with YGC for certain business synergies, including access to YGC clients and prospective clients and joint product development. As a result, a deterioration in the financial condition of YGC or negative publicity regarding YGC or any other entities owned or controlled by YGC could have a material adverse effect on the Bank's financial condition and business opportunities.

Losses in the Bank's subsidiaries' operations may affect the financial standing of the Bank

As a universal bank, the Bank is authorized, subject to certain limits, to invest in allied and non-allied undertakings and joint ventures such as RCBC Capital and Honda Cars Phils.

A portion of the Bank's earnings may be derived from the dividends from these operating companies or may be otherwise affected by the financial performance of its subsidiaries. For the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018, the Bank derived dividend income of ₱ 237.00 million, ₱ 449.00 million, ₱ 234.00 million, ₱ 154.00 million and ₱ 181.00 million respectively, from these companies. Losses in these undertakings may affect the financial standing of the Bank and could have a material adverse effect on the Bank's financial condition.

Furthermore, certain financial institutions owned or controlled by the Bank are also subject to BSP audit, the results of which may affect the banking license of these subsidiaries, and consequently affect the cash flow to the Bank in terms of dividends.

The Bank may not be able to successfully upgrade its information and reporting systems in a cost effective and timely manner to respond to technological advances and changing banking industry standards

Effective information and reporting systems are critical to the Bank's operations. Among other things, the Bank relies on timely access to reliable information in order to provide services to its customers and prudently manage its assets and liabilities, liquidity and overall financial condition. In addition, the Bank's ability to manage credit risk, market risk, interest rate risk and operational risk also depends on access to such information.

There can be no assurance that the Bank will be able to respond to technological advances and changing banking industry standards and practices on a cost-effective and timely basis. If the Bank's systems quickly become outdated or the Bank's employees are not adequately trained in how to operate and comply with system upgrades, the Bank's financial condition, liquidity and results of operations could be materially and adversely affected.

Significant security breaches in the Bank's computer systems and network infrastructure, fraud, systems failures and calamities could adversely impact its business

The Bank's computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. The Bank's hardware and software are also subject to damage or incapacitation by human error, natural disasters, power loss, sabotage, computer viruses and similar events or the loss of support services from third parties such as internet backbone providers. A significant failure in security measures could have an adverse effect on the Bank's business and its reputation could be adversely affected by significant fraud committed by employees, agents, customers or third parties.

The Bank seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by its increased use of networking. The Bank employs security systems, firewalls and password encryption, designed to minimize the risk of security breaches. The Bank may be required to expend significant additional resources to modify its protective measures or to investigate and remediate vulnerabilities or other exposures, and the Bank may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by the Bank.

To mitigate these risks, the Bank continues to implement security technologies and establish operational procedures. However, these may not be sufficient to prevent fraud, break-ins, damage and failures. Given the increasing share of retail products and services and transaction banking services in the Bank's business, the importance of systems technology to its business has increased significantly. The Bank's principal delivery channels include its branches and ATMs and its electronic banking systems.

Any failure in the Bank's systems, particularly those utilized for its retail products and services and transaction banking, or the occurrence of natural disasters that affect areas in which it has a significant presence, could adversely affect its operations.

CONSIDERATIONS RELATING TO THE LTNCDS

Certain actions relating to the LTNCDs require prior approval of the BSP.

Certain actions relating to the LTNCDs, such as pretermination prior to maturity are subject to the prior approval of the BSP. There is no assurance that such approval will be obtained in a timely manner, if at all. Neither the Issuer nor the Sole Lead Arranger make any such assurance that such approval will be obtained in a timely manner, if at all.

The Issuer is not prohibited from issuing further debt which may rank *pari passu* with or senior to the LTNCDs

There is no restriction on the amount of debt that the Bank may issue that ranks senior to the LTNCDs or on the amount of securities that it may issue that rank *pari passu* with the LTNCDs. The issue of any such debt or securities may thus reduce the amount recoverable by investors upon the Issuer's bankruptcy. If the Issuer's financial condition were to deteriorate, the LTNCD holders could suffer direct and materially adverse consequences, including suspension of interest and reduction of interest and principal and, if the Issuer were liquidated (whether voluntarily or involuntarily), the LTNCD holders could suffer loss of their entire investment.

Liquidity of the LTNCDs

LTNCD Holders may not redeem or preterminate the LTNCDs before Maturity Date. LTNCD Holders may, however, negotiate or transfer the LTNCDs to purchasers who are not Prohibited LTNCD Holders. In accordance with the Manual of Regulations for Banks, as amended, negotiations/transfers from one LTNCD Holder to another do not constitute pretermination. As the LTNCDs will be listed on the Philippine Dealing & Exchange Corp. ("PDEx"), any transfer between investors of different tax status with respect to the LTNCDs may be done at any time when the LTNCDs are listed with PDEx. Any change in the interpretation of current tax laws subjecting the LTNCDs to deductions or withholdings of whatever nature shall, however, be for the account of the LTNCD Holder.

The Bank may, subject to the Terms and Conditions and Section X233.9 of the Manual of Regulations for Banks (the "Manual") and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding LTNCDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

The liquidity for the LTNCDs will depend in part upon the activity of trading participants in developing a trading market for the LTNCDs. The Bank is required to and will list the LTNCDs on the PDEx. The secondary trading of the LTNCDs would be conducted on the PDEx (through its trading participants) in accordance with its rules and BSP rules, including but not limited to guidelines on minimum trading lots and record dates, and subject to such fees of, PDEx and other providers necessary for the completion of such trades. No assurance can be given that an active trading market for the LTNCDs will develop.

Transfers only through PDEx

While the LTNCDs are listed in the PDEx, all transfers of the LTNCDs must be made through the PDEx. Consequently, the parties to a transfer may be subject to the guidelines of the relevant PDEx trading participant and the payment to such trading participant and the Registrar of any reasonable fees. There is no assurance that the secondary trading of the LTNCDs may not be affected given these restrictions.

The LTNCDs are required to be listed on an established exchange. Investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines.

These rules and guidelines cover minimum trading lots and record dates. The secondary trading of LTNCDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the LTNCDs trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling LTNCD Holder would receive sales proceeds lower than his initial investment should a LTNCD Holder decide to sell his LTNCDs prior to maturity.

Limited Right to Accelerate

Subject to the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any LTNCD Holder before Maturity Date. In the case of an event of default, none of the LTNCD Holders may accelerate the LTNCDs on behalf of other LTNCD Holders, and may only collect from the Bank to the extent of his holdings in the LTNCDs. There is no assurance that the secondary trading of the LTNCDs may not be affected given this limitation.

Issuance and Transfer Restrictions

The LTNCDs may not be issued or transferred to (a) the Bank; (b) the subsidiaries or affiliates of the Bank; (c) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Bank and (d) Prohibited Holders as defined in the Registry & Paying Agency Agreement. Since the LTNCDs will be listed on PDEx, transfers between investors of different tax status with respect to the LTNCDs may be done at any time.

The Registrar is authorized to refuse any transfer or transaction in the LTNCD Registry which may be in violation of these restrictions. There is no assurance that the secondary trading of the LTNCDs may not be affected given these restrictions.

Price Risk and Payment of Interest

LTNCD Holders may not accelerate the LTNCDs. Should LTNCD Holders decide to transfer their LTNCD holdings prior to Maturity Date, the price of the LTNCDs in the secondary market is subject to market fluctuations which may result in investments in the LTNCDs being reduced in value. During adverse market conditions, a LTNCD Holder may not able to liquidate all or part of the LTNCDs as and when required.

The price of the LTNCDs in the secondary market is subject to market fluctuations which may result in investments in the LTNCDs being reduced in value. The LTNCDs are not insured by the Bank or any of its branches, associates or subsidiaries. During adverse market conditions, a LTNCD Holder may not able to liquidate all or part of the LTNCDs as and when required.

Given the foregoing, there is no assurance that the secondary trading of the LTNCDs may not be affected given these restrictions.

Taxation of the LTNCDs

The 1997 Tax Code, as amended, provides that income earned on interest-bearing obligations of Philippine residents is Philippine-sourced income subject to Philippine income tax.

The LTNCDs will, to the extent held by 20 or more lenders, be treated as deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines as holders of the LTNCDs will generally be subject to a 20% final withholding tax. However, the LTNCDs may qualify as long-term deposit or investment, in which case, pursuant to BIR Revenue Regulations ("RR") No. 14-2012 and Revenue Memorandum Circular ("RMC") No. 81-2012, interest income derived by said individuals shall be exempt from the 20.0% final withholding tax provided the following characteristics/conditions are present:

1. The depositor or investor is an individual citizen (resident or nonresident), a resident alien or a nonresident alien engaged in trade or business in the Philippines;

2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;

3. The long-term deposits or investments must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the Bangko Sentral ng Pilipinas (BSP);

4. The long-term deposits or investments must be issued by banks only and not by other financial institutions;

5. The long-term deposits or investments must have a maturity period of not less than five (5) years;

6. The long-term deposits or investments must be in denominations of Ten thousand pesos (₱10,000) and other denominations as may be prescribed by the BSP;

7. The long-term deposits or investments should not be terminated by the investor before the fifth (5th) year, otherwise they shall be subjected to the following graduated Final Withholding Tax (FWT) rates on interest income earnings based on the investor's holding period:

   Four years to less than five years – 5 percent (5%)

   Three years to less than four years – 12 percent (12%)

   Less than three years – 20 percent (20%)

8. Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

If any of the above requirements is not present, interest income from the LTNCD is subject to an FWT at the rate of twenty percent (20%).

While the LTNCDs cannot be pre-terminated at the instance of any LTNCD Holder before Maturity Date, unless there occurs an event of default, LTNCD Holders may assign or transfer their LTNCD to another holder who is not a prohibited holder and such transfer or assignment will not be considered as a pre-termination. While this position has been reiterated by the BIR in RR No. 14-2012, the same regulation as well as succeeding circulars clarifying that regulation indicate, however, that a transfer of the LTNCD before the fifth year will be subjected to the graduated rates based on the number of years held by the transferor LTNCD Holder.

In view of BIR RR No. 14-2012 as well as succeeding circulars thereon, the Bank will treat a transfer or assignment of the LTNCDs in the secondary market as a pretermination, solely for purposes of determining the applicable rate of withholding tax on the interest earned by the LTNCD Holder thereof, and shall proceed to withhold the appropriate tax on the interest earned thereon.

The tax rates for LTNCD Holders who are not individual citizens, resident individuals, and non-resident individuals engaged in trade or business in the Philippines, are as follows:

- Non-resident alien not engaged in trade or business in the Philippines – 25% final withholding tax pursuant to Section 25 (B) of the 1997 Tax Code, as amended
- Non-resident foreign corporation – 30% final withholding tax pursuant to Section 28 (B) (1) of the 1997 Tax Code as amended
- Domestic corporation and resident foreign corporation – 20% final withholding tax pursuant to Sections 27 (D) and 28 (A) (7) of the 1997 Tax Code, as amended

Pursuant to the 1997 Tax Code, as amended, the original issuance of LTNCDs shall also be subject to the documentary stamp tax ("DST") of One Peso and Fifty Centavos (₱ 1.50) on each Two Hundred Pesos (₱ 200.00), or fractional part thereof, of the issue price.

Since the LTNCDs have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the LTNCDs will be exempt from Philippine income tax.

The gross income from the sale or transfer of the LTNCDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines at varying rates. The transfer of LTNCDs as part of the estate of a deceased individual to his heirs, or donation are also subject to estate and donor's tax at varying rates. As issuer of the LTNCDs, the withholding of final tax on the interest due on the LTNCDs is the responsibility of the Bank pursuant to Section 57 of the 1997 Tax Code, as amended, and Section 2.57 of RR No. 2-98, as amended. The Bank shall be required to abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim ("CAAC") System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank's listed issues.

If any payments of principal and/or interest in respect of the LTNCDs shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "Taxes"), then such Taxes shall be for the account of the LTNCD Holder concerned, and if the Bank shall be required by law or regulation (or any change in interpretation or implementation of such law or regulation prevailing) to deduct or withhold such Taxes, then the Bank shall make the necessary withholding or deduction for the account of the LTNCD Holder concerned; provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant LTNCD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar; and provided, further, that DST for the primary issue of the LTNCD and the documentation, if any, shall be for the account of the Bank. There is no assurance that the secondary trading of the LTNCDs may not be affected given this tax treatment.

U.S. Foreign Account Tax Compliance Act withholding may affect payments on the Securities.

The U.S. "Foreign Account Tax Compliance Act" (or "FATCA") imposes a new reporting regime and, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. On 13 July 2015, the Intergovernmental Agreement ("IGA") Model 1 was signed and executed by the Philippines and the United States. As a Reporting Model 1 participating foreign financial institution ("PFFI") within Philippine jurisdiction, RCBC is legally mandated to follow the provisions set forth by the signed IGA Model 1. Under the said aforementioned IGA Model 1, the obligation to withhold tax under section 1471 or 1472 of the U.S. Internal Revenue Code with respect to an account held by a recalcitrant account holder is suspended subject to compliance by the Bank and the Bureau of Internal Revenue thereunder. This suspension, however, may possibly be lifted either by the U.S. IRS or the Philippine Competent Authority, specifically by the Bureau of Internal Revenue.

Whilst the LTNCDs are maintained in scripless form through the Registrar and persons classified as U. S. persons under FATCA are considered Prohibited LTNCD Holders, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the Registrar. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary is generally unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or such other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or such other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the LTNCDs are discharged once it has paid the Paying Agent and the Issuer has therefore no responsibility for any amount thereafter transmitted through such custodians or intermediaries. Prospective investors should refer to the section "*Taxation — Foreign Account Tax Compliance Act*." There is no assurance that the secondary trading of the LTNCDs may not be affected by FATCA.

USE OF PROCEEDS

The net proceeds of the issue, after deducting fees, commissions and other related expenses will be used by the Bank to expand the Bank's long-term deposit base, support long-term asset growth and other general funding purposes.

TERMS AND CONDITIONS OF THE LTNCDS

The following does not purport to be a complete listing of all the rights, obligations, or privileges of the LTNCDs. Some rights, obligations, or privileges may be further limited or restricted by other documents, including the Purchase Advice issued upon confirmation of a purchase of the LTNCDs. Prospective investors are enjoined to carefully review the executed Master LTNCD and the Terms and Conditions of each Series of the LTNCDs, the information contained in this Offering Circular, and other agreements relevant to the Offer. Copies of the Master LTNCD and the Terms and Conditions of each Series of the LTNCDs are available for inspection during normal business hours at the specified offices of the Registrar.

These Long-Term Negotiable Certificates of Time Deposit with a principal amount of ₱3,580,000,000.00 are being issued by Rizal Commercial Banking Corporation (the "Bank" or "Issuer") in favor of the LTNCD Holders (as defined below) in accordance with Section X233.9 of the Manual of Regulations for Banks (the "MORB") and BSP Circular Nos. 304 (2001), 428 (2004), 778 (2012), 810 (2013), 824 and 834 (2014), and 877 (2015), including Monetary Board Resolution No. 617 dated 11 April 2017 (the *BSP Approval*), and such other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time, and shall at all times be subject to and governed by these Terms and Conditions.

1.0 Definitions and Interpretation

(A) WHEN USED IN THESE TERMS AND CONDITIONS:

Adverse Effect means a material adverse effect on the Issuer's operations, activities, business, property, liabilities, condition (financial or otherwise) or prospects; implementation of the issuance of the LTNCDs; or its ability to duly perform and observe its obligations and duties under the LTNCDs and the LTNCD Agreements (as defined below).

Anti-Money Laundering Laws of the Philippines means Republic Act No. 9160, as amended by Republic Act Nos. 9194, 10167, 10365 and 10927, Republic Act No. 10168, otherwise known as The Terrorism Financing Prevention and Suppression Act of 2012, and BSP Circular Nos. 251, 253, 279, 706, 765, 794 and 950, and all other amendatory and implementing laws, regulations, jurisprudence, notices, or orders of any Philippine governmental body relating thereto;

Auditors mean Punongbayan & Araullo;

Bank or ***Issuer*** means Rizal Commercial Banking Corporation, a corporation duly organized and existing under the laws of the Philippines, and duly authorized to operate as a universal bank;

Banking Day means any of the days in a week, other than Saturday or Sunday, and public holidays on which commercial banks are generally open for the transaction of banking in Makati City, Philippines;

BIR means the Bureau of Internal Revenue of the Philippines;

BSP means the *Bangko Sentral ng Pilipinas*;

Cash Settlement Account means an account designated by a LTNCD Holder with a Cash Settlement Bank into which shall be credited the interests, principal, and other payments on the LTNCDs;

Cash Settlement Bank means a bank licensed and authorized under the laws of the Philippines and designated by the LTNCD Holder as the bank with which the relevant Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent;

Closed Period means the relevant period described in Condition 9(b)(i) and 9(b)(ii), during which no person may request any transfer of LTNCDs to be recorded in the LTNCD Registry, and no transfers of LTNCDs may be recorded in such LTNCD Registry;

Early Redemption Amount means the Issue Price, plus accrued and unpaid interest up to, but excluding,

the Early Redemption Date;

Early Redemption Date means the date (which must be an Interest Payment Date) when the Early Redemption Option is exercised by the Bank pursuant to Condition 6(b) and subject to the provisions of the LTNCD Regulations;

Early Redemption Option means the option of the Bank to pre-terminate and redeem the LTNCDs in whole, but not in part, before Maturity Date at the Early Redemption Amount on any Early Redemption Date, subject to the provisions of the LTNCD Regulations;

Event of Default means an event specified as such in Condition 12;

Final Redemption Amount means 100% of the aggregate nominal amount of the LTNCDs, plus accrued and unpaid interest up to, but excluding, the Maturity Date;

HSBC refers to The Hongkong and Shanghai Banking Corporation Limited, a bank duly organized and existing under and by virtue of the laws of the Hong Kong Special Administrative Region of the People's Republic of China, and duly authorized to operate as a universal bank in the Philippines by the BSP through its Manila branch;

Indebtedness means indebtedness for monies borrowed or any guarantee or indemnity for monies borrowed, other than the indebtedness under the LTNCDs;

Interest Payment Date means the last day of a particular Interest Period when interest on the LTNCDs is due and payable to the LTNCD Holders, and means each of 28 March, 28 June, 28 September, and 28 December, beginning on 28 December 2018, except that the last Interest Payment Date shall be on the Maturity Date provided, that if any Interest Payment Date is not a Banking Day, then interest will be paid on the next succeeding Banking Day without any adjustment as to the amount of interest to be paid;

Interest Period means the period from and including the Issue Date to, but excluding the first Interest Payment Date, and every succeeding subsequent period beginning on and including the immediately preceding Interest Payment Date to, but excluding the next Interest Payment Date, but in the case of the last Interest Period, it will be the period from and including the immediately preceding Interest Payment Date up to, but excluding, the Maturity Date;

Interest Rate means 5.50 % per annum, being the fixed per annum rate payable to the LTNCD Holders for the entire tenor of the LTNCDs;

Issue means the issuance of LTNCDs by the Bank pursuant to these Terms and Conditions;

Issue Date shall mean 28 September 2018;

Issue Price means one hundred percent (100%) of the principal amount of the LTNCDs;

LTNCDs means ₱3,580,000,000.00 worth of Long-Term Negotiable Certificates of Time Deposit due March 2024, to be issued by the Bank, represented by a Master LTNCD, and subject to the LTNCD Regulations and these Terms and Conditions;

LTNCD Agreements means the Placement and Selling Agency Agreement, the Registry and Paying Agency Agreement, the Master Certificate of Time Deposit, these Terms and Conditions, and such other separate letters or agreements covering listing, conditions precedent, fees, expenses and other obligations of the parties, including amendments thereto as these relate to the Fixed Rate LTNCDs;

LTNCD Holder means a person who, at any relevant time, appears in the LTNCD Registry as the registered owner of a Fixed Rate LTNCD;

LTNCD Registry means the electronic records of the Registrar bearing the official and best evidence of

information of the names and other details of the LTNCD Holders and the amount of LTNCDs held by each holder, including records of all transfers and transactions in respect of the LTNCDs;

LTNCD Regulations means the General Banking Law of 2000 (Republic Act No. 8791), all the necessary rules and guidelines for the issuance of Long-Term Negotiable Certificates of Time Deposit, including Section X233.9 of the Manual of Regulations for Banks (the "*MORB*") and BSP Circular Nos. 304, 428, 778, 810, 824, 834, and 877, and such other circulars and regulations as may be relevant for the transaction, including the BSP Approval, as these may be amended from time to time;

MIB refers Multinational Investment Bancorporation, an investment house duly organized and existing under and by virtue of the laws of the Republic of the Philippines;

Master LTNCD means the Master Long-Term Negotiable Certificate of Time Deposit representing each Series of the LTNCDs, setting forth the terms and conditions of each Issue;

Maturity Date means five years and six months from the Issue Date, such date being 28 March 2014;

Offering Circular means the Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) in preliminary and final form in respect of the LTNCDs, and all amendments, supplements and addenda thereto;

PDEx means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the Securities and Exchange Commission (***SEC***) to operate an exchange and trading market for fixed income securities and a member of the PDS Group;

PDIC means the Philippine Deposit Insurance Corporation, a government instrumentality attached to the Department of Finance, and established pursuant to Republic Act No. 3591, as amended, with the following principal roles: deposit insurer, co-regulator of banks, and receiver and liquidator of closed banks;

PDS Group means the group of companies comprised of the Philippine Dealing System Holdings Corporation, which is the parent company of the group, and its operating subsidiaries, which are affiliates of PDTC (as defined below); namely, PDEx and the Philippine Securities Settlement Corp.;

PDTC means the Philippine Depository & Trust Corp., a private financial institution duly authorized to perform registry and paying agency functions by the appropriate authorities, and organized and existing under and by virtue of the laws of the Republic of the Philippines;

Paying Agent means the PDTC as appointed by the Bank under the Registry and Paying Agency Agreement to perform the role of a paying agent required under the LTNCD Regulations and includes its successor entity, or any replacement Paying Agent;

Payment Account means the account to be opened and maintained by the Paying Agent with such Payment Bank designated by the Issuer and solely managed by the Paying Agent in trust and for the irrevocable benefit of the LTNCD Holders, into which the Issuer shall deposit the amount of the interest and/or principal and other payments due on the LTNCDs on the relevant dates and exclusively used for such purpose, the beneficial ownership of which shall always remain with the LTNCD Holders;

Payment Bank means a duly-licensed bank designated by the Issuer, where the Payment Account will be opened, maintained, and managed by the Paying Agent for and on behalf of the Issuer, into which the Issuer shall deposit, in good cleared funds, the amount of the relevant interest and principal payments due each LTNCD Holder on each relevant Payment Date;

Philippine Pesos or the symbol ₱ means the lawful currency of the Republic of the Philippines;

Prohibited LTNCD Holders means the

(1) the Issuer or any related party over which the Issuer exercises control or significant influence

including subsidiaries and affiliates of the Issuer, including the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates; or

(2) unit investment trust funds managed by the Trust and Investment Group of the Issuer, its subsidiaries, and affiliates, or other related entities; or

(3) other funds being managed by the Trust and Investment Group of the Issuer, its subsidiaries and affiliates or other related entities where (a) the fund owners have not given prior authority or instruction to the Trust and Investment Group of the Issuer to purchase or invest in the LTNCDs; or (b) the authority or instruction of the fund owner and his understanding of the risk involved in purchasing or investing in the LTNCDs are not fully documented. For purposes hereof, a subsidiary means, at any particular time, a company which is then directly or indirectly controlled, or more than fifty percent (50%) of whose issued voting equity share capital, or equivalent, is then beneficially-owned by the Issuer and/or one or more of its subsidiaries or affiliates; and, an affiliate refers to a related entity linked by means of ownership of at least twenty percent (20%) to not more than fifty percent (50%) of its outstanding voting stock;

(4) such persons who are otherwise not qualified under the LTNCD Regulations; or

(5) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than thirty-one (31) days in the current calendar year or a total of one hundred eighty-three (183) days over the previous three (3) years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; (f) a passive non-financial foreign entity with U.S. controlling persons; or (g) any other person that is not a non-US person; or

(6) persons classified as a Restricted Party; or

(7) persons who are (a) non-resident aliens not engaged in trade or business in the Philippines, or (b) non-resident foreign corporations, but only until such time as the operational tax framework and such applicable trading and settlement rules and conventions of PDEX allow for the two (2) aforementioned to qualify as LTNCD Holders;

Purchase Advice means the written advice sent by the Selling Agents (in the case of the primary issuance of the LTNCDs) or by a PDEx Trading Participant (in the case of the secondary market of the LTNCDs upon listing in PDEx) to the LTNCD Holder confirming the acceptance of the LTNCD Holder's offer to purchase such LTNCDs and consequent ownership thereof and stating the details, including the tax status, as well as a summary of the terms and conditions of the issue, sale, or transfer of the LTNCDs. A computer-generated Purchase Advice shall include the statement that it is a computer-generated form, and if issued without alterations, does not require any signature;

Registrar means PDTC as appointed by the Bank under the Registry and Paying Agency Agreement to perform the role of a registrar required under the LTNCD Regulations, and includes its successor entity, or any replacement Registrar;

Registry and Paying Agency Agreement means the agreement to be executed by and between the Bank and the Registrar and Paying Agent, stipulating the rights and obligations of the Registrar and Paying Agent with respect to the LTNCDs, including any amendment or supplement thereto;

Registry Confirmation shall mean the written advice to be sent by the Registrar to the LTNCD Holders, which includes the Securities Receipt Confirmation and the Registry Account Opening Confirmation attached thereto and made an integral part thereof, whether signed by an authorized signatory when

manually generated or signatureless when computer-generated, confirming the details and summary terms and conditions of LTNCDs registered in the LTNCD Registry in the name of a LTNCD Holder. If computer-generated, the written confirmation shall include the statement that it is a computer-generated form, and if issued without alterations, does not require any signature;

Restricted Party means a person that is: (i) listed on, or owned or controlled by a person listed on, or acting on behalf of a person listed on, any Sanctions List; (ii) located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in or organized under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions; or (iii) otherwise a target of Sanctions (***target of Sanctions*** signifying a person with whom a US person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business or other activities);

Sanctions means the economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the Philippines; (ii) the United States government; (iii) the United Nations; (iv) the European Union (v) the United Kingdom; or (vi) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury (*OFAC*), the United States Department of State, and Her Majesty's Treasury (*HMT*) (together the *Sanctions Authorities*);

Sanctions List means the ”Specially Designated Nationals and Blocked Persons” “Consolidated Sanctions” and “Sanctions Programs and Country Information” lists maintained by OFAC, the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities;

Selling Agent means each of the Bank (through its head office and branches), HSBC, RCBC Savings Bank, and MIB, each as appointed by the Bank under the Placement and Selling Agency Agreement, to perform the role of selling agents required under the LTNCD Regulations, and includes their respective successor entity, or any replacement or additional Selling Agents;

Terms and Conditions means these Terms and Conditions of the LTNCDs as may be issued and amended from time to time; and

Trading Participant means a trading participant of PDEx defined as such under the rules and regulations of PDEx.

(a) All terms defined in these Terms and Conditions shall have their defined meanings when used herein, and in any certificate, report, or other document or instrument made or delivered pursuant hereto. All annexes or attachments shall be considered integral parts of these Terms and Conditions. Titles of provisions in these Terms and Conditions are used for convenience of reference only, and do not limit or affect the interpretation of the provisions hereof. Words denoting persons shall include individuals, corporations, partnerships, joint ventures, trusts, unincorporated organizations, political subdivisions, agencies, or instrumentalities. Other than to a third party, references to “party”, “parties” or “parties hereto”, or similar references, and references to “Condition” or “Conditions” are to be construed as references to a party or the parties to these Terms and Conditions, and to a Condition or Conditions in these Terms and Conditions, respectively. No representation, undertaking, or promise shall be taken to have been given or be implied from anything said or written by the Bank prior to the execution of these Terms and Conditions, except as set out herein.

(b) These Terms and Conditions representing the LTNCDs sold shall be executed by the Bank and deposited with the Registrar on the Issue Date for the benefit of the LTNCD Holders.

2. Form, Denomination, and Title

(a) <u>Form and Denomination</u>

The LTNCDs will be issued in denominations of Ten Thousand Pesos (₱10,000.00) and in a minimum

investment size of Fifty Thousand Pesos (₱50,000.00), and in increments of Ten Thousand Pesos (₱10,000.00) in excess thereof. The LTNCDs shall be issued and maintained in scripless and electronic form with the Registrar through the LTNCD Registry. Registry Confirmations will be issued in accordance with the LTNCD Regulations and the Registry and Paying Agency Agreement and will contain a unique transaction reference number.

(b) LTNCD Holders

The LTNCDs may only be issued and transferred to investors who are not Prohibited LTNCD Holders.

(c) Title

Title to the LTNCDs shall be indicated in the LTNCD Registry maintained by the Registrar. The LTNCD Registry shall be the best evidence of ownership and transactions with respect to the LTNCDs.

3. Status and Ranking

The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable according to these Terms and Conditions, and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves, and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The LTNCDs are considered exempt securities pursuant to Sec. 9(e) of the Securities Regulation Code, and are thus exempt from the registration requirements thereof.

4. Deposit Insurance Coverage

The LTNCDs are, and shall be, while outstanding, insured by the Bank at its own cost with the PDIC, subject to applicable rules, regulations, terms and conditions, as the same may be amended from time to time, including the following:

(a) Deposits are insured by the PDIC up to the maximum amount insurable by the PDIC which currently stands at Five Hundred Thousand Pesos (₱500,000.00) per depositor.

(b) PDIC shall presume that the name/s appearing on the records of the LTNCD Registry (based on documents submitted to the Registrar and Paying Agent, and duly endorsed by a Selling Agent or a PDEx Trading Participant, as the case may be) is/are the actual/beneficial owner/s of the deposit, except as provided in PDIC Regulatory Issuance No. 2009-03, as the same may be amended from time to time.

(c) In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor-LTNCD Holder. For purposes hereof, the term "qualified relatives" refers to those transferees within the second degree of consanguinity or affinity of the transferor-LTNCD Holder.

(d) Where a deposit account/s with an outstanding balance of more than the maximum deposit insurance coverage is/are broken up and transferred to one or more account/s, PDIC shall recognize the transferor as the beneficial owner of the resulting deposit accounts entitled to deposit insurance, unless the transferee/s can prove that:

The break-up and transfer of Legitimate Deposit was made under all of the following conditions:

a. The break-up and transfer of Legitimate Deposit to the transferee is for a Valid Consideration;
b. The details or information for the transfer, which establish the validity of the transfer from the transferor to the transferee, are contained in any of the Deposit Account Records of the bank; and

c. Copies of documents, which show the details or information for the transfer, such as but not limited to contracts, agreements, board resolutions, orders of the courts or of competent government body/agency, are in the custody or possession of the bank upon takeover by PDIC.

In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor-LTNCD Holder although in the name of the transferee, subject to consolidation with the other deposits of the transferor-LTNCD Holder.

(e) PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor-LTNCD Holder.

5. Interest

(a) Interest Accrual

The LTNCDs shall bear interest on its principal amount from and including the Issue Date, but excluding the Early Redemption Date or the Maturity Date, as the case may be. The LTNCDs shall continue to bear interest in accordance with these Terms and Conditions until all sums in respect of such LTNCD are received by or on behalf of the relevant LTNCD Holder.

(b) Interest Payment Dates

Interest shall be payable on each Interest Payment Date; Provided that, if any Interest Payment Date or the Maturity Date is not a Banking Day, then interest will be paid on the next succeeding Banking Day without any adjustment as to the amount of interest to be paid.

(c) Determination of Interest

The amount of interest payable in respect of the LTNCDs for each Interest Period shall be determined by the Registrar by applying the Interest Rate to the principal amount of the LTNCDs, and calculating the result on a 30/360-day basis, and the resultant figure shall be rounded to the second decimal place in accordance with the Registrar and Paying Agent's system algorithm.

6. Redemption, Early Redemption, and Purchase

(a) Redemption at Maturity Date

Unless previously pre-terminated and cancelled in accordance with these Terms and Conditions, the LTNCDs shall be redeemed by the Bank at the Final Redemption Amount on the Maturity Date.

(b) Early Redemption

(i) *Early Redemption Option for Taxation Reasons*. If any payment of principal or interest due under the LTNCDs becomes subject to additional or increased taxes other than the taxes and rates of such taxes prevailing as of the Issue Date as a result of changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by the use of reasonable measures available to the Bank, the Bank, subject to the LTNCD Regulations, shall have the option, but not the obligation, to pre-terminate and redeem all and not part of the LTNCDs on any Interest Payment Date before Maturity Date at the Early Redemption Amount.

(ii) *Early Redemption for Increased Reserves.* If the LTNCDs become subject to additional or increased reserves required by the BSP other than the statutory regular reserves required in the LTNCD Regulations prevailing as of the Issue Date, and such additional or increased

amount of reserves required cannot be avoided by use of reasonable measures available to the Bank, the Bank, subject to the LTNCD Regulations, shall have the option (but not the obligation) to pre-terminate and redeem all, and not part, of the LTNCDs on any Interest Payment Date before Maturity Date, at the Early Redemption Amount.

(iii) *Early Redemption for Other Reasons.* Subject to the LTNCD Regulations, the Bank has the option, but not the obligation, to pre-terminate and redeem all, and not part, of the LTNCDs on any Interest Payment Date before the Maturity Date, at the Early Redemption Amount on any other ground as may be approved by the BSP.

(iv) *Manner of Exercising the Early Redemption Option.* In exercising the Early Redemption Option, the Bank shall give to the LTNCD Holders and the appropriate supervision and examination department of the BSP not less than thirty (30) calendar days prior notice, stating therein the ground relied upon for the exercise of the Early Redemption Option, which ground must be one of the grounds specified in Condition 6(b)(i), (ii), or (iii) above. The notice referred to in this Condition 6(b)(iv) shall be published in at least two newspapers of general circulation in the Philippines in accordance with SEC Memorandum Circular No. 1 (2008) for two (2) consecutive days at any time prior. Once issued, said notice shall be irrevocable, and shall be binding on the Bank and each LTNCD Holder.

(v) *Payments; Taxes; Reserves.* After the issuance of the notice under Condition 6(b)(iv), the Bank shall be obliged to repay all of the LTNCDs at the Early Redemption Amount on the Early Redemption Date. On the Early Redemption Date and following payment of the Early Redemption Amount, the Registrar shall transfer all of the interests of the LTNCD Holders in the LTNCDs to the Bank. All such LTNCDs pre-terminated pursuant to this Condition 6(b) shall then be deemed fully redeemed and cancelled.

As a consequence of the exercise of the Early Redemption Option, any incremental tax that may be due on the interest income already earned under the LTNCDs prior to or as a result of the exercise by the Bank of its option for pre-termination shall be for the account of the Bank. In addition, the Bank shall recompute its reserve positions retroactively based on the applicable reserve rate(s) for regular time deposits during the period between the Issue Date and the Early Redemption Date.

(vi) *No Pre-termination by LTNCD Holders*. Except as otherwise contemplated under Condition 13(a) on account of the occurrence of an event described under Condition 12 ("Events of Default"), none of the LTNCD Holders shall have the right to require the Bank to redeem and repay any or all of the LTNCDs before the Maturity Date. In accordance with the LTNCD Regulations, transfers of the LTNCDs to a person other than the Bank shall not constitute pre-termination.

7. Payments

(a) Principal and interest, and all other amounts payable on the LTNCDs net of taxes and fees, if any, shall be credited to the relevant Cash Settlement Accounts maintained with the Cash Settlement Banks.

(b) All payments on the LTNCDs shall be drawn by the Paying Agent from the Payment Account and shall be made in Philippine Pesos.

8. Taxation

(a) Subject to Condition 9, if any payments of principal and/or interest in respect of the LTNCDs shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon

(the ***Taxes***), then such Taxes shall be for the account of the LTNCD Holder concerned; and if the Bank shall be required by law or regulation, or any change in interpretation or implementation of such law or regulation prevailing, to deduct or withhold such Taxes, then the Bank shall make the necessary withholding or deduction for the account of the LTNCD Holder concerned; *provided*, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant LTNCD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer through the Registrar and Paying Agent upon submission of the Registry Account opening documents; and *provided, further*, that documentary stamp tax for the primary issue of the LTNCD and the documentation, if any, shall be for the account of the Bank.

(b) As issuer of the LTNCDs, the withholding of final tax on the interest due on the LTNCDs is the responsibility of the Bank pursuant to Section 57 of the National Internal Revenue Code, as amended, and Section 2.57 of Revenue Regulations No. 2-98, as amended. The Bank shall be required to abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank's listed issues.

(c) Notwithstanding the foregoing, the Bank shall not be liable for the filing of returns and other reportorial requirements, as well as the payment of: (i) gross receipts tax under Section 121 of the National Internal Revenue Code, as amended; and (ii) taxes on the overall income of any LTNCD Holder, whether or not subject to withholding.

(d) The tax exemption of LTNCD Holders claiming exemption from any applicable tax shall be implemented only upon submission of the following documents to the Registrar and Paying Agent:

(i) A certified true copy of the current and valid tax exemption certificate, opinion, or ruling issued by the Bureau of Internal Revenue confirming its exemption from withholding tax on its income;

(ii) A duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Bank and the Registrar of any suspension or revocation of the tax exemption certificate, and agreeing to indemnify and hold the Bank, the Registrar and the Paying Agent free and harmless against any claims, actions, suits, expenses, penalties and liabilities resulting from the non-withholding of the required tax; and

(iii) Such other documentary requirements as may be reasonably required by the Bank or the Registrar and Paying Agent, or required under the applicable regulations of the relevant taxing or other authorities.

(e) Should the Bank be required to withhold any tax or charge pursuant to the Foreign Account Tax Compliance Act of the United States of America (***FATCA*** or any similar foreign law binding on the Bank), then any payment made on the LTNCDs to affected LTNCD Holders may be affected by the amount of withholding tax under FATCA (the ***FATCA Withholding***), and the Bank shall proceed to withhold the amount of FATCA withholding tax before any payments are released to the LTNCD Holder concerned. The Bank shall not be responsible for any gross up payment to offset the amount withheld and/or deducted from payment in compliance with FATCA.

(f) Should the Bank, the Selling Agents, the Registrar, Paying Agent, or a Trading Participant require documentary support in connection with FATCA insofar as a LTNCD Holder is concerned, then such LTNCD Holder shall submit to the requesting party such documents and execute such waivers as may be required to prove that the LTNCD Holder is not a U.S. Person or its applicable FATCA status, as the case may be, within thirty (30) calendar days from receipt of such notice.

A U.S. Person, as defined under FATCA, is not allowed to become an LTNCD Holder. Thus, the Bank, the Selling Agents, the Registrar, the Paying Agent or a Trading Participant will rely on the LTNCD Holder's declaration and representation that the LTNCD Holder is not a U.S. Person under FATCA, as may be amended from time to time.

The LTNCD Holder further undertakes to inform the Bank in writing of any change in circumstance that will make the LTNCD Holder a U.S. Person, within thirty (30) calendar days from the occurrence of such change. Any change in status under FATCA shall be dealt with by the Bank in accordance with the applicable rules and regulations concerning domestic compliance with FATCA.

9. Transfers of LTNCDs

(a) Transfers

All transfers of the LTNCDs shall be executed only through PDEx and its Trading Participants, subject to *inter alia* the payment to the PDEX and its Trading Participants and/or the Registrar of any reasonable fees, as the agreements between them would dictate. Transfers of the LTNCDs to a person other than the Bank shall not constitute pre-termination.

(b) Closed Periods

No person may require the transfer of any LTNCDs to be registered by the Registrar in the LTNCD Registry: (i) during the period of two (2) Banking Days preceding (and including) the Early Redemption Date or the Maturity Date, as the case may be; and (ii) during the period of two (2) Banking Days preceding any Interest Payment Date. The Registrar will prevent any transfer of the LTNCDs to be recorded in the LTNCD Registry during any Closed Period. The Registrar shall recognize and treat only those LTNCD Holders registered as such in the LTNCD Registry as of the relevant Record Date as the owners of the corresponding LTNCDs for any relevant payment or allocation purpose.

(c) LTNCD Registry: Legal Title and Transfers

The LTNCD Registry shall be kept at the specified office of the Registrar, and shall contain the names and addresses of the LTNCD Holders, the particulars of the LTNCDs held by them, as well as all records of purchases and transfers of LTNCDs, whether Trade Related or Non-Trade Related. Title to the LTNCDs shall be shown in the LTNCD Registry maintained by the Registrar.

Upon any transfer of the LTNCDs and subject to compliance with applicable conditions for transfers of the LTNCDs, including, but not limited to the due execution and delivery by the transferor LTNCD Holder of (i) a written instruction (in form and substance acceptable to the Registrar and Paying Agent and/or the Trading Participant) from a transferor-LTNCD Holder to transfer all or part of the LTNCDs registered in its name; (ii) the delivery by the transferor-LTNCD Holder of the Purchase Advice and such transfer instructions required by the Registrar and Paying Agent pertaining to the LTNCDs intended to be transferred; and (iii) such other documents required by the Registrar and Paying Agent and/or a Trading Participant in accordance with the Registry and Paying Agency Agreement and the Registrar's rules, then transfers shall be recorded in the LTNCD Registry, and new Registry Confirmations will be issued by the Registrar in favor of the purchasers of the affected LTNCDs. Upon such recording of the transfer, title shall then pass by registration of the transferee-LTNCD Holder in the LTNCD Registry.

Any costs associated with the settlement in respect of such transfer of the LTNCDs, including the settlement of taxes, if any, arising from subsequent transfers, shall be for the account of the transferor-LTNCD Holder and/or its counterparty, as market convention or the agreements between them would dictate.

(d) Tax Status

The Trading Participant and/or the Registrar may, unless properly provided with satisfactory proof of the tax-exempt status of a LTNCD Holder, assume that said LTNCD Holder is taxable and proceed to apply the tax due on the LTNCDs. The Trading Participant and/or the Registrar may require the LTNCD Holder claiming a preferential tax treatment to provide proof satisfactory to it of such preferential status. Notwithstanding the submission by the LTNCD Holder, or the receipt by the Bank or any of its agents, of documentary proof of the tax-exempt status of an LTNCD Holder, the Bank may, in its sole discretion, determine that such LTNCD Holder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the LTNCDs. Any question on such determination shall be referred to and be decided upon by the Bank.

(f) Change in Status

Subject to the provision on Closed Periods, any transfer between investors of different tax status with respect to the LTNCDs may be done at any time when the LTNCDs are listed with PDEx, subject to the applicable PDEx rules, conventions, and guidelines governing trading and settlement between LTNCD Holders of different tax statuses.

In the case of a transfer by a taxable or non-tax-exempt LTNCD Holder in favor of any transferee, whether taxable or not taxable, the final withholding tax on the interest income earned or deemed to be earned by the transferor-LTNCD Holder on the LTNCDs during the Interest Period in which the transfer is made, based on the period that such LTNCDs were actually held by the transferor-LTNCD Holder, shall be deducted from the purchase price due to it.

(f) Taxes

Documentary stamp taxes as well as other taxes due on the transfer of a LTNCD, if any, shall be for the account of the relevant LTNCD Holder and/or its counterparties, to be deducted from the purchase price due to it, and shall not be for the account of the Bank. Subject to Condition 8, the Bank may treat a transfer, assignment, sale, or negotiation of the LTNCDs as a pre-termination for purposes of determining the applicable rate of withholding tax on the interest earned by the transferor-LTNCD Holder. In such instances, the Bank shall, directly or through the Trading Participant, make the necessary withholding or deduction of the applicable withholding tax due on such interest from the purchase price to be received by the transferor-LTNCD Holder concerned.

The foregoing notwithstanding, all sums payable by the Bank to tax-exempt persons, if applicable, shall be paid in full without deductions for such taxes, subject to the submission by the relevant LTNCD Holder claiming the exemption of such documentation as may be required under these Terms and Conditions.

10. Representations and Warranties

The Bank hereby represents and warrants, as follows:

(a) *Incorporation*: the Bank is duly incorporated and validly existing under the laws of its place of incorporation with full power and authority to conduct its business as described in the Offering Circular, and is lawfully qualified to do business in those jurisdictions in which business is conducted by it;

(b) *Title to property*: except as otherwise disclosed in the Offering Circular, it has legal and beneficial title to all its property in each case free and clear of all liens, encumbrances, and defects; and any real property and buildings held under lease by it are held by it under valid, subsisting, and enforceable leases;

(c) *Corporate Power*: the Bank has the corporate power under the laws of its incorporation and its constitutive documents to issue the LTNCDs, and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the LTNCD Agreements, and these Terms and Conditions;

(d) *Capacity*: the Bank (and, if applicable, any person on whose behalf it may act either as agent or in any representative capacity) has and will continue to have full capacity and authority to enter into the LTNCD Agreements, and to carry out the transactions contemplated in the LTNCD Agreements, and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery, and performance of the LTNCD Agreements;

(e) *Validity of the LTNCD Agreements*: the LTNCD Agreements have been duly authorized, executed, and delivered by the Bank, and constitute its valid and legally binding and enforceable obligations;

(f) *Validity of LTNCDs*: the LTNCDs have been duly authorized by the Bank and, when duly executed, authenticated, issued, and delivered in accordance with the Registry and Paying Agency Agreement, will constitute its valid and legally binding obligations;

(g) *Status*: the LTNCDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable against it according to these Terms and Conditions, and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves, and at least *pari passu* with all its other present and future direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(h) *Consents*: all necessary actions and things required to be obtained, taken, fulfilled, or done, including, without limitation, the obtaining of any consent, waiver, authorization, order or license or the making of any filing or registration, for the issue of the LTNCDs, the carrying out of the other transactions contemplated by the LTNCDs and the LTNCD Agreements or the compliance by the Bank with the terms of the LTNCDs and the LTNCD Agreements, as the case may be, have been obtained, taken, fulfilled, or done, and such obtainment, taking, fulfillment, or doing are subsisting and unconditional;

(i) *BSP Approval*: the Bank has obtained the final approval of the BSP to issue the LTNCDs, which approval has not been revoked, qualified, or restricted, and shall fully, timely, and unconditionally comply with all other terms and conditions imposed by the BSP regarding the issuance of the LTNCDs while any portion of the LTNCDs remain outstanding;

(j) *BSP Conditions*: it is compliant with all qualifications and conditions of the LTNCD Regulations to issue, maintain, service, pay out, redeem, and cancel the LTNCDs, including the prohibitions of item H of BSP Circular No. 304, which qualifications and conditions continue to be complied with;

(k) *Compliance*: the execution and delivery of the LTNCD Agreements, the issuance of the LTNCDs, the carrying out of the other transactions contemplated by the LTNCD Agreements and these Terms and Conditions, and compliance with their terms do not and will not (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default or violation under, the documents constituting the Bank, or any contract, indenture, trust deed, mortgage, or other agreement or instrument to which the Bank or any of its subsidiaries is a party or by which it or any of its properties is bound; or (ii) violate or infringe any existing applicable law, rule, regulation, judgment, order, or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over it, any such subsidiary or any of their properties;

(l) *Offering Circular*: (i) the Offering Circular contains all information with respect to the Bank and to the LTNCDs which is material in the context of the issue and offering of the LTNCDs, including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the LTNCDs, is necessary to enable potential investors and their advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the LTNCDs; (ii) the statements contained in the Offering Circular relating to the Bank, its subsidiaries, and affiliates are in every material respect correct, true, accurate, and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to them are honestly held, have been reached after considering all relevant circumstances, and are based on reasonable assumptions; (iv) there are no other material facts or

information in relation to the Bank, its subsidiaries, and affiliates, or the LTNCDs the omission of which would, in the context of the issue and offering of the LTNCDs, make any statement in the Offering Circular misleading; and (v) all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) *Accounting Policies*: the Offering Circular accurately describes (i) accounting policies which the Bank believes to be the most important in the portrayal of its financial condition and results of operations (the ***Critical Accounting Policies***); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their Auditors with regard to such disclosure;

(n) *Accounting Controls*: the Bank maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the Philippines and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each of its subsidiaries and associates has made and kept books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with generally accepted accounting principles of the Philippines; and (vi) its current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank, its subsidiaries, or associates has experienced any material difficulties with regard to (i) through (v) above;

(o) *Contingent Liabilities*: the Bank has no outstanding guarantees or contingent payment obligations with respect to indebtedness of third parties, except those issued in the ordinary course of business or as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) *Off-balance Sheet Arrangements*: the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that it believes would materially affect liquidity and are reasonably likely to occur, and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any of its subsidiaries or affiliates has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other subsidiary or affiliate, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank, its subsidiaries, or affiliates or the availability thereof or the requirements of the Bank, its subsidiaries, or affiliates for capital resources;

(q) *Provision of Information*: all information provided by the Bank to its External Auditors required for the purposes of their comfort letters in connection with the offering and sale of the LTNCDs has been supplied, or as the case may be, will be supplied, in good faith and after due and careful inquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be, when supplied, true and accurate in all material respects, and no further information has been withheld, the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) *Independence of Auditors*: the Bank's External Auditors are independent public accountants, as required by the Philippine Institute of Certified Public Accountants, and the applicable rules and regulations thereof;

(s) *Related Party Transactions*: save as disclosed in the Offering Circular, all material transactions of the Bank amongst it and its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available to and from other parties on an arm's-length basis;

(t) *Financial Statements*: (i) the Bank's audited and unaudited consolidated financial statements, as appearing in the Offering Circular were prepared in accordance with accounting principles generally accepted in, and pursuant to the relevant laws of, the Philippines consistently applied and presents fairly its financial position as at the dates, and the results of operations and cash flows for the periods, in respect of which they have been prepared; and (ii) since the date of its last audited consolidated financial statements, there has been no change, development, or event involving a prospective change of which the Bank is, or might be expected to be, aware which would have an Adverse Effect on the Bank;

(u) *Licenses, Permits, and Conduct of Business*: the Bank (i) has all licenses, franchises, permits, authorizations, approvals, registrations and orders, and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance in all material respects with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines, and circulars of the BSP, the SEC, the Philippine Stock Exchange (the ***PSE***), the PDIC, and the BIR; (iii) has complied with, corrected, and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not have an Adverse Effect;

(v) *Intellectual Property*: except as specifically described in the Offering Circular, the Bank legally and validly owns or possesses, all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names, or other intellectual property (collectively, ***Intellectual Property***) necessary to carry on the business now operated by it, and it has not received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect its interests therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(w) *Litigation*: except as specifically described in the Offering Circular, there are no pending actions, suits, or proceedings pending or threatened against or affecting the Bank, its subsidiaries, or affiliates or any of their properties which, if determined adversely, would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the LTNCD Agreements or the LTNCDs, or may affect in any manner the validity and enforceability of this LTNCD Agreements, or which are otherwise material in the context of the issue of the LTNCDs; and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated, nor is there an order of any court, administrative agency, or tribunal of competent jurisdiction that has been issued or effective which would make the consummation of the transactions contemplated by the LTNCD Agreements illegal or invalid or imposing any unreasonable conditions on the consummation of the transactions contemplated by the LTNCD Agreements;

(x) *Default*: no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(y) *Anti-money Laundering and compliance with Laws:* the operations of the Bank and its subsidiaries are and have been conducted at all times in compliance with applicable laws, financial record keeping and reporting requirements and money laundering statutes in the Philippines, and of all jurisdictions in which the Bank and its subsidiaries conduct business or operations, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued and

administered or enforced by any governmental agency or proceeding by or before any court or governmental agency (collectively, ***Money Laundering Laws***) and, except as otherwise previously disclosed to the Sole Arranger, no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Bank or any of its subsidiaries with respect to Money Laundering Laws is pending and, to the best of the knowledge of the Bank's after making all due and careful enquiries, no such actions, suits or proceedings are threatened or contemplated. The Bank shall notify the Sole Arranger and Selling Agents of any breach of laws, or any action, investigation, or proceeding with respect to any breach of laws;

(z) *Anti-bribery:* neither the Bank nor any of its subsidiaries, nor any director, officer, agent, employee or other person associated with or acting on behalf of the Bank or any of its subsidiaries, has (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) violated or is in violation of any provision of the US Foreign Corrupt Practices Act of 1977 ("FCPA"); or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment prohibited under any applicable law or regulation equivalent to the FCPA;

(aa) *Sanctions:* neither the Bank, nor any of its subsidiaries or joint ventures, nor any of their respective director, officer, or any employees nor, to the knowledge of the Bank, any persons acting on any of their behalf

a. is a Restricted Party; or

b. has received notice of or is aware of any claim, action, suit, proceeding, or investigation against it with respect to Sanctions by any Sanctions Authority.

(bb) *Benefit to Restricted Party:* it shall not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of any transaction(s) contemplated by this Agreement to fund any trade, business or other activities: (i) involving, or for the benefit of, any Restricted Party, or (ii) in any other manner that would reasonably be expected to result in the Bank or the Sole Arranger or any Selling Agent being in breach of any Sanctions (if and to the extent applicable to either of them) or becoming a Restricted Party; and

(cc) *Solvency*: the Bank is Solvent. As used in this paragraph, the term ***Solvent*** means, with respect to a particular date, that on such date (i) the present fair market value (or present fair saleable value) of its assets is not less than the total amount required to pay its liabilities on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy.

These representations and warranties are true and correct as of the Issue Date and shall remain true and correct as long as the LTNCDs remain outstanding.

11. Covenants

The Bank hereby covenants and agrees that, for as long as the LTNCDs remain outstanding:

(a) *Payment*: it shall pay all amounts due under the LTNCDs and the LTNCD Agreements at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the LTNCDs and the LTNCD Agreements;

(b) *Taxes*: it shall pay and discharge all taxes, assessments, and government charges or levies imposed upon it, or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed; pay and discharge, when due, all lawful claims which, if unpaid, might become a lien or charge upon any of its properties; and take such steps as may be necessary in order to prevent its properties from being subjected to the possibilities of loss, forfeiture, or sale; *provided*, that it shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested by it in good faith and by proper proceedings;

(c) *Corporate Existence*: it shall preserve and maintain its corporate existence, and all its rights, licenses, franchises, permits, concessions, and privileges, and it shall not change the nature of its business as presently conducted;

(d) *Financial Records*: it shall maintain adequate financial records and prepare all financial statements in accordance with generally accepted accounting principles and practices in the Philippines consistently applied, and in compliance with the regulations of the government body having jurisdiction over it, and, subject to receipt of a written request within a reasonable period before the proposed date of inspection, permit the LTNCD Holders or their duly designated representatives, to inspect the books of accounts and records pertinent to the compliance by the Bank of its obligations under the LTNCDs;

(e) *Compliance with Laws*: it shall comply with all the requirements, terms, covenants, conditions, and provisions of all laws, rules, regulations, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business, or its assets are legally bound, where non-compliance would have an Adverse Effect;

(f) *Compliance with BSP Directives*: it shall fully and promptly comply with all BSP directives, orders, issuances, findings, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(g) *PDIC*: it shall ensure that the LTNCDs are insured with, and continue to be insured by, the PDIC for up to the maximum insurance coverage, and shall comply with all rules and regulations of the PDIC;

(h) *Use of Proceeds*: it shall use the net proceeds from the LTNCDs in accordance with the purpose of issuance provided in the Offering Circular;

(i) *Obligations*: it shall pay all indebtedness and other liabilities, and perform all contractual obligations pursuant to all agreements to which it is a party, or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings;

(j) *Notice of Proceedings*: it shall give to the LTNCD Holders, through the Registrar and Paying Agent, written notice of (i) all assessments, litigation, or administrative or arbitration proceedings before any court, tribunal, arbitrator, or governmental or municipal authority affecting the Bank or any of its assets regarding any claim which (x) is in excess of ₱500,000,000 or (y) which might have an Adverse Effect; and (ii) of any other matter or condition affecting the Bank which may have an Adverse Effect, immediately upon becoming aware that the same has occurred, is pending or has been commenced;

(k) *LTNCD Documents*: it shall ensure that any documents related to the LTNCDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(l) *Other Information*: it shall, upon prior written request of a LTNCD Holder, execute and deliver to such LTNCD Holder the reports, documents, and other information respecting the business, properties, condition, or operations, financial or otherwise, of the Bank as a LTNCD Holder may from time to time reasonably require;

(m) *Default*: it shall, as soon as possible, and in any event within three (3) days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under any agreement of the Bank with any party, including, without limitation, the LTNCD Agreements, serve a written notice to the LTNCD Holders, through the Registrar and Paying Agent, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(n) *Compliance with Reporting Obligations*: it will duly and punctually comply with all reporting, filing, and similar requirements imposed by the BSP, the SEC, PDEx, and the PSE, or in accordance with any applicable Philippine law and regulations from time to time relating to the LTNCDs and the LTNCD Agreements;

(o) *Information and Warranties*: it will immediately notify the LTNCD Holders, and the Registrar and Paying Agent, if anything occurs which renders or may render untrue or incorrect, in any material respect, any of the representations or warranties in Condition 10 of these Terms and Conditions, or the Bank otherwise breaches, or is alleged to breach any of its undertakings;

(p) *Agents*: it shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the LTNCDs, as provided in the Registry and Paying Agency Agreement;

(q) *Request for Information*: it shall, when so requested in writing, provide any and all information reasonably needed by the PDEx, Trading Participant, the Paying Agent and/or Registrar, as the case may be, to enable them to comply with their respective responsibilities and duties under the LTNCD Regulations and the LTNCD Agreements; *provided*, that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting, and shall perform such acts as may be necessary to provide for alternative information gathering;

(r) *Government Agency Orders*: it shall promptly advise the LTNCD Holders, through the Registrar and Paying Agent of: (i) any request by any government agency for any information related to the LTNCDs; or (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the LTNCDs or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the LTNCDs at the earliest time possible;

(s) *Sanctions:* neither the Bank, nor any of its subsidiaries or joint ventures, nor any of their respective directors, officers or employees nor, to the knowledge of the Bank, any persons acting on any of their behalf:

i. is a Restricted Party; or

ii. has received notice of or is aware of any claim, action, suit, proceeding or investigation against it with respect to Sanctions by any Sanctions Authority.

The Bank shall not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of any transaction(s) contemplated by this Agreement to fund any trade, business or other activities: (i) involving or for the benefit of any Restricted Party; or (ii) in any other manner that would reasonably be expected to result in the Bank or the Sole Arranger or any Selling Agent being in breach of any Sanctions (if and to the extent applicable to either of them) or becoming a Restricted Party; and

(t) *Further Assurance*: the Bank shall execute and deliver such documents and perform such further acts as a relevant party may reasonably require in relation to the LTNCD Regulations or any of the LTNCD Agreements.

These covenants of the Bank shall survive the issuance of the LTNCDs, and shall be complied with and performed fully and faithfully by the Bank at all times while the LTNCDs or any portion thereof remains outstanding.

12. Events of Default

A LTNCD Holder shall have the right to declare the Bank in default, insofar as the LTNCDs registered under such LTNCD Holder's name is concerned, in accordance with Condition 13, in case any of the following events shall occur and be continuing:

(a) The Bank fails to pay any principal and/or interest due on the LTNCDs;

(b) The Bank fails to perform or violates its covenants (other than Condition 12(a)) under these Terms and Conditions, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from receipt of written notice by the Bank of such failure or violation;

(c) Any of the Bank's representations and warranties under Condition 10 or any certificate or opinion submitted by it in connection with the issuance of the LTNCDs is untrue, incorrect, or misleading in any material respect;

(d) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of ₱500,000,000 or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, or is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(e) Any Indebtedness of the Bank with respect to borrowed money is not paid when due; or any Indebtedness of the Bank with respect to borrowed money becomes (or is capable of becoming) fully due and repayable prematurely by reason of a default under the document relating to such indebtedness; *provided*, that in any of the foregoing cases, the aggregate amount of Indebtedness exceeds ₱500,000,000, or its equivalent in any other currency;

(f) Any judgment, writ, warrant of attachment or execution, or similar process shall be issued or levied against all or substantially all of the Bank's assets and such judgment, writ, warrant, or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, or expropriates all or substantially all of the properties of the Bank;

(h) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of fifteen (15) calendar days, except in the case of strikes or lockouts, or when due to fortuitous events or *force majeure*, or when there is no material adverse effect on the business operations or financial condition of the Bank; or

(i) The Bank becomes insolvent or is unable to pay its debts when due, or commits or permits any act of bankruptcy, including (i) filing, in accordance with applicable laws and regulations, of a voluntary or involuntary petition by or against the Bank, as the case may be in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) the appointment of a trustee or receiver or similar officer over all or a substantial portion of its assets, and such appointment is not lifted, discharged, or dismissed within thirty (30) calendar days from the Bank's receipt of notice of such appointment; (iii) the making of an assignment for the benefit of its creditors over all or substantially all of its assets; (iv) admission in writing of its

inability to pay its debts; or (v) entry of any final and executory order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up or liquidation, of the Bank or a substantial portion of its assets.

13. Effects of Default Events

(a) Declaration of Default

If any one or more of the Events of Default shall have occurred and be continuing, after any applicable cure period shall have lapsed, a LTNCD Holder may, without need of any notice, demand, presentment, waiver, consent, or approval from any other LTNCD Holder, by notice to the Bank and to the Registrar and Paying Agent, stating the Event of Default relied upon, declare the principal and all accrued interest including default interest, as specified in Condition 13(b) below, and other charges (including any incremental tax that may be due on the interest income already earned under the relevant LTNCDs) thereon, if any, insofar as the particular LTNCDs registered under such LTNCD Holder's name as appearing in the LTNCD Registry is concerned, to be immediately due and payable. Upon such declaration, the same shall be immediately due and payable by the Bank, notwithstanding anything contained in these Terms and Conditions to the contrary, without need for any further presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by the Bank, without prejudice to the other remedies available to the other LTNCD Holders.

For the avoidance of doubt, a LTNCD Holder need not be joined with any other LTNCD Holder to declare the Bank in default under these Terms and Conditions with respect to the particular LTNCDs registered under its name as appearing in the LTNCD Registry. Nothing herein, however, shall be construed as conveying upon a LTNCD Holder the right and privilege to declare as immediately due and payable the principal or accrued interest including default interest, as specified in Condition 13(b) below, or other charges (including any incremental tax that may be due on the interest income already earned under the relevant LTNCDs) thereon, if any, on any or all other LTNCDs.

(b) Default Interest

In case of an Event of Default under Condition 13(a), the Bank shall, in addition to the payment of unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per annum thereon, which shall accrue from the date the amounts payable under these Terms and Conditions became due until the same is fully paid.

(c) Application of Payments

Subject to the Registry and Paying Agency Agreement, any money delivered to the Paying Agent upon the occurrence of an Event of Default under Condition 12 shall be applied by the Paying Agent in the order of preference as follows: *first*, to the *pro rata* payment to the Registrar and Paying Agent, Selling Agents, and PDEx and the Trading Participant, of the costs, expenses, fees, and other charges of collection, including reasonable compensation to each of them, their agents, attorneys, and all reasonable expenses and liabilities incurred or disbursements made by them, without gross negligence, willful omission or bad faith; *second*, to the payment of all outstanding interest owing to such LTNCD Holder, including any default interest as specified in Condition 13(b) above, in the order of maturity of such interest; *third*, to the payment of the whole amount then due and unpaid on the LTNCDs for principal and interest; *and fourth*, the remainder, if any shall be paid to the Bank, its successors, or assigns, or to whoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct; *provided*, that in the event more than one LTNCD Holder makes a demand for payment under Condition 13(a) at or about the same time, any money delivered to the Paying Agent by the Bank pursuant to such demands by the LTNCD Holders shall be applied by the Paying Agent to the *pro rata* payment of the amounts owing to such LTNCD Holders and in the order of preference stated above.

14. Remedies; Waiver; Ability to File Suit; Limitations

(a) All remedies conferred by these Terms and Conditions to the LTNCD Holders shall be cumulative and not exclusive, and shall not be so construed as to deprive the LTNCD Holders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce such direct rights under these Terms and Conditions.

(b) No delay or omission by the LTNCD Holders, or any one of them, to exercise any right or power arising from or on account of any Event of Default hereunder, shall impair any such right or power, or shall be construed to be a waiver of any such Event of Default or an acquiescence thereto; and every power and remedy given by these Terms and Conditions to the LTNCD Holders may be exercised from time to time and as often as may be necessary or expedient.

(c) Nothing herein shall be deemed to create a partnership or collective venture between the LTNCD Holders. Each LTNCD Holder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions with respect to the particular LTNCDs registered under its name as appearing in the LTNCD Registry, and it shall not be necessary for the other LTNCD Holders to be joined as a party in any judicial or other proceeding for such purpose.

(d) Notwithstanding any other provisions in these Terms and Conditions, in no instance shall any of the parties be liable for special, indirect, consequential, nominal, exemplary, or punitive damages (including, without limitation, any loss of profits, business or anticipated savings).

15. Replacement Registry Confirmations

In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar, upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery to the LTNCD Holders of the Registry Confirmation, subject to applicable fees.

16. Notices

(a) To the Bank

Except for a notice to declare an Event of Default which must be personally delivered or sent by registered mail with postage prepaid, all notices, instructions, statements, and requests to the Bank shall be in writing and shall be sent by personal delivery, courier, registered mail with postage prepaid, confirmed facsimile to the Bank at its address, facsimile number, and secured electronic mail address, and for the attention of the specified representative as set forth below:

RIZAL COMMERCIAL BANKING CORPORATION
Yuchengco Tower, RCBC Plaza

6819 Ayala Avenue, Makati City, Makati City

Attention: Francisco G. Singian, Jr.
First Vice President
Tel. No.: 894 9022
Fax No.: 845 2766
E-mail: fgsingian@rcbc.com

Attention: Robby Carlo J. Gaerlan
Manager
Tel. No.: 894 9563
Fax No.: 845 2766
E-mail: rjgaerlan@rcbc.com

(b) To the Registrar and Paying Agent

Except for a notice to declare an Event of Default which must be personally delivered to the Registrar and Paying Agent, all notices, instructions, and requests to the Registrar and Paying Agent shall be in writing and shall be sent by personal delivery, courier, or registered mail with postage prepaid, confirmed facsimile to the Registrar and Paying Agent at its address, facsimile number, and secured electronic email address, and for the attention of the specified representative, as set forth below:

PHILIPPINE DEPOSITORY & TRUST CORP.
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue, Makati City

Attention: Josephine "Baby" F. Dela Cruz
Director
Tel. No:884 5025
Fax No:757 6025
E-mail: baby_delacruz@pds.com.ph

Attention: Patricia Camille R. Garcia
Registry Officer
Tel. No.: 884 4413
Email: peachy.garcia@pds.com.ph

(c) To the LTNCD Holders

Except as otherwise provided in these Terms and Conditions, and except for a notice to declare an Event of Default which must be disseminated by publication as provided in the Registry and Paying Agency Agreement, all notices to the LTNCD Holders shall be in writing and shall be sent by mail with postage prepaid to the name and last recorded address of the LTNCD Holders as appearing in the LTNCD Registry or by publication, at the Bank's expense, for two (2) consecutive days in two (2) newspapers of general circulation in Metro Manila in accordance with SEC Memorandum Circular No. 1 (2008).

(d) Effect of Notice

All notices, instructions, statements, and requests, where applicable, shall take effect: (i) if delivered personally to the address as provided in this Condition 16, be deemed given upon delivery; (ii) if delivered by a courier, be deemed given upon delivery; (iii) if delivered by facsimile transmission to the facsimile number as provided in this section, be deemed given upon receipt in readable form and a full transmission report has been received by the sender; (iv) if delivered by registered mail in the manner described above to the address as provided in this Condition 16, be deemed given upon receipt, and in case of email if received in readable form (in each case regardless of whether such notice, request or other communication is received by any other person on behalf of such individual to whom a copy of such notice, request or other communication is to be delivered pursuant to this Condition). The parties shall maintain any electronic data, message, communication, or mail received pursuant to the Electronic Commerce Act (Republic Act No. 8792) and these Terms and Conditions. The Parties may from time to time change its address, facsimile number, or other information for the purpose of notices hereunder by giving notice specifying such change to the other parties pursuant to the notice procedure under this Condition 16.

Any notice, report, or communication received on a non-working day or after business hours in the place of receipt will only be deemed given on the next working day in that place.

(e) Recording

For security and quality of service purposes, all telephone and other communications between the parties and the LTNCD Holders may be recorded in any manner, and the LTNCD Holders shall be deemed to have consented to such recording and to the production of such recordings as evidence in any proceedings

brought in connection with the LTNCDs.

(f) Regulatory Notices / Complaint Desk

For any concerns you may contact the Bank at (02) 877-RCBC (877-7222) or customercontact@rcbc.com. RCBC is a universal bank regulated and supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 708-7087 and email address consumeraffairs@bsp.gov.ph.

17. Amendment

Any amendment of these Terms and Conditions is subject to the LTNCD Regulations.

18. Venue

In the event of any legal action arising from, or by reason of, the interpretation and enforcement of the provisions of these Terms and Conditions, (a) the proper venue for such court action shall exclusively be any competent court of Makati City, Philippines, and (b) the party adjudged by the court to be liable shall be obliged to pay the costs of litigation, as well as reasonable attorney's fees.

19. Prescription

Any action upon the LTNCDs shall prescribe within ten (10) years from the time the right of action accrues.

20. Severability

If any provision hereunder becomes invalid, illegal, or unenforceable under any law, the validity, legality, and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The Bank shall exert reasonable efforts to replace any invalid provision with a valid provision which most closely approximates the intent and economic effect of the illegal, invalid, or unenforceable provision.

21. Governing Law

These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

CAPITALIZATION AND INDEBTEDNESS OF THE BANK

The following table sets out the (i) audited consolidated capitalization and indebtedness of the Bank as of 31 March 2018; and (ii) as adjusted for the proposed issuance of the LTNCDs. This table should be read in conjunction with the Bank's audited consolidated financial statements included elsewhere herein (see "Index to Financial Statements" below).

	As of March 31, 2018	
	Actual	**As adjusted**
	(₱ millions)	**(₱ millions)**
Liabilities		
Deposit Liabilities	394,614	394,614
Bills Payable	50,464	50,464
Bonds Payable	44,930	44,930
Subordinated Debt	9,973	9,973
Other Liabilities	17,773	17,773
Total Long-Term Liabilities	**517,754**	**517,754**
Equity		
Common Stock	13,999	19,356
Preferred Stock	3	3
Capital Paid in Excess of Par	22,635	32,097
Revaluation Reserves	1,988	1,988
Reserve for Trust Business	436	436
Other Reserves	2,041	2,041
Surplus	26,825	26,825
Non-Controlling Interests	28	28
Total Equity	67,958	82,777
Total Liabilities and Equity	**585,712**	**600,531**

(1) Time deposits and LTNCDs.

(2) Others include: Remeasurement Losses on Retirement Plan, Accumulated Translation Adjustment, Net Unrealized Gain on Available-for-Sale Investments and Other Reserves.

DESCRIPTION OF THE BANK

Introduction

The Bank is a prominent universal bank in the Philippines which provides a wide range of banking and financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. As of 31 March 2018, the Bank was the eighth largest private domestic commercial bank in the Philippines in terms of total assets, based on the published statements of financial position. In terms of number of branches, the Bank ranked sixth in the Philippines, with a country-wide total of 508 branches as of 31 March 2018, including 35 extension offices.

As of 31 March 2018, the Bank's consolidated total resources and equity amounted to ₱ 585,712.00 million and ₱ 67,958.00 million, respectively. The Bank's consolidated profit before tax and net profit for the three months ended 31 March 2018 amounted to ₱ 1,394.47 million and ₱ 1,133.47 million, respectively.

As of 31 March 2018, the Bank had a market capitalisation on the PSE of ₱ 63.91 billion. The Bank's consolidated Tier 1 capital adequacy ratio and total capital adequacy ratio were 11.78% and 14.61%, respectively, as of 31 March 2018.

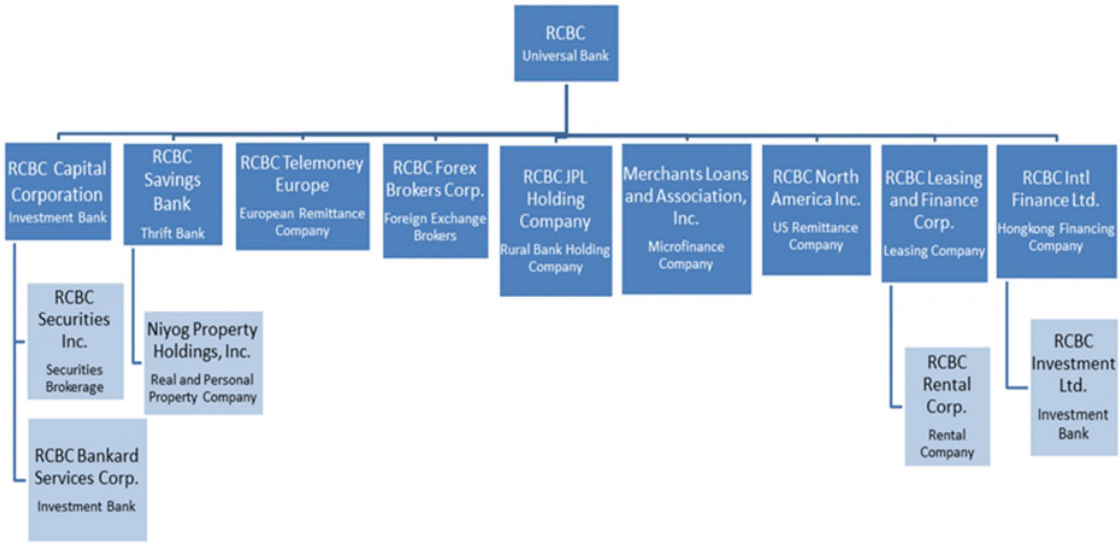
The Bank offers commercial, corporate and consumer banking products and services throughout the Philippines, as well as treasury, cash management and remittance services. The Bank's medium-term strategy is to grow its loan portfolio specifically its consumer and SMEs loan portfolios. For the three months ended 31 March 2018, the Retail Banking Segment, which provides a range of banking products and services mainly sold through the Bank and its subsidiaries, was the largest contributor to its net income.

The Bank's RBG provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide ATM network.

The Bank's corporate banking group focuses on leading Philippine and multinational corporations, Filipino-Chinese businesses, and international corporate clients in special economic zones. Through its current affiliation with YGC and past affiliation with UFJ, it has established long-standing relationships with Japanese companies in various special economic zones in the country.

The Bank also provides a full range of consumer banking products and services in the Philippines, primarily through its subsidiary, RSB. The Bank's international operations consist of its wholly-owned subsidiaries, RCBC North America, Inc. and RCBC TeleMoney Europe in the United States and Italy, respectively, and its majority-owned subsidiary RCBC International Finance Limited and its subsidiary, RCBC Investment Ltd., in Hong Kong. The Bank's relationship with other banks, exchanges and other international money transfer agencies has strengthened its remittance business used primarily by OFWs. The Bank estimates it had an approximate 4.93% share of the remittance business in the Philippines as of 31 December 2017, based on remittance volumes published by the BSP.

The structure of the Group is as follows:



History

The Bank, incorporated under the name Rizal Development Bank, began operations as a private development bank in the province of Rizal in 1960. In 1962, the Bank received approval from the BSP to operate as a commercial bank and on 2 January 1963, the Bank began operations under its present name. In 1973, the Bank formed alliances with two foreign banks, CONNILL and UFJ (then known as Sanwa Bank and following its merger in 2004 with Mitsubishi Tokyo Financial Group, became known as The Bank of Tokyo-Mitsubishi UFJ Limited). The relationship with CONNILL ended in 1985 after CONNILL sold its shareholding in the Bank to UFJ. In December 2006, UFJ disposed of its entire shareholdings in the Bank to Spinnaker.

The Bank obtained its commercial banking license in 1963 and its universal banking license in 1989 and has been listed on the PSE since 1986.

The Bank acquired Merchants Bank in mid-2008 in order to expand the Bank's branch network. Importantly, the acquisition also allowed the Bank to take over Merchant Bank's thrift banking license which allowed the Bank to commence microfinance deposit taking operations in Mindanao. On 13 February 2009, to further bolster its entry into the microfinance business in the Philippines, the Bank acquired JP Laurel Rural Bank in Batangas.

As of 31 December 2008, the Yuchengco family, primarily through a holding company, the Pan Malayan Management & Investment Corp. ("PMMIC"), owned approximately 42.0% of the Bank's outstanding shares. In addition, as of 31 December 2008, other members of the YGC owned or controlled an additional 11.5% of the Bank's issued and outstanding common shares whilst Spinnaker owned 16% of the Bank's outstanding common shares. In the early part of 2009, Spinnaker disposed of its entire stake in the Bank. The shares disposed of by Spinnaker were primarily bought back by the Bank in order to allow the Bank to issue shares to potential strategic investors with a business strategy in line with the Bank's business direction. As of 31 March 2017, the Yuchengco family, primarily through PMMIC, owned approximately 42.45% of the Bank's issued and outstanding shares whilst other members of YGC owned or controlled an additional 9.65% of the Bank's issued and outstanding shares.

On 9 March 2011, the Bank and the International Finance Corporation ("IFC") reached an agreement whereby IFC acquired an approximately 7.2% stake in the Bank's common shares, as measured on a post-funding basis, for a total consideration of over ₱ 2.1 billion. The additional capital raised will support growth in the Bank's loan book, which in addition to large corporates, targets growth in SMEs, microfinance and consumer finance segments. The incremental capital raised may also be used to support the future acquisition of small and/or medium-sized banks in the Philippines.

On 12 May 2011, the Board of Directors of the Bank approved the proposed acquisition by CVC Capital Partners ("CVC") of approximately 15% stake in the Bank's share capital through a subscription of new shares in the share capital of the Bank and the purchase of existing shares from certain shareholders for a total consideration of approximately ₱ 5.0 billion. The said transaction was approved by the stakeholders of the Bank on 27 July 2011 and finalized on 23 September 2011. The investment by CVC was undertaken by Hexagon Investment B.V. ("Hexagon"),

a special purpose vehicle ultimately controlled by CVC. The terms of the investment entitled Hexagon to two seats out of 15 on the Bank's board of directors. CVC sold its holdings to Cathay Life Insurance Co., Ltd. on 20 April 2015.

On 28 March 2012, RCBC completed the purchase of 448,528,296 common shares or approximately 97.8% of the outstanding capital stock in First Malayan Leasing and Finance Corporation (now known as RCBC Leasing and Finance Corporation ("RCBC LFC")) from Pan Malayan, House of Investments, Inc. ("HI") and certain other sellers for ₱ 1.53 per share or a total consideration of ₱ 686.2 million. Approval from the BSP was granted on 16 March 2012. The transaction included an equity infusion of ₱ 163.2 million into RCBC LFC to bolster its capital base. RCBC LFC is a non-bank financial institution with a quasi-banking license granted by the BSP, serving corporate and commercial clients and consumers in the financing industry and its wholly-owned subsidiary, Malayan Rental Corporation (now known as RCBC Rental Corporation ("RCBC RC")), is in the business of renting and leasing equipment and machinery. The acquisition allowed the Bank to be more aggressive in providing finance leases and operating leases to clients of the Bank. This will help medium-sized companies accelerate their business expansion through the use of leasing structures and forego significant capital outlays tied to traditional bank lending.

On 20 April 2015, Cathay Life Insurance Co., Ltd. ("Cathay") completed its acquisition of a 20% share block in RCBC. Cathay subscribed to 124,242,272 primary common shares and acquired 118,935,590 secondary shares from Hexagon Investments B.V., an entity controlled by funds advised by CVC Asia Pacific Limited ("CVC") and 36,724,138 secondary shares from International Finance Corporation ("IFC"), all at the price of ₱ 64.00 per share. With its 20% stake in RCBC, Cathay entered into a shareholders agreement with Pan Malayan Management and Investment Corp. and the Bank to govern their relationship.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths:

- *Sustainable size with an established operating history*

  The Bank is a prominent universal bank in the Philippines with extensive experience in the financial services sector extending over 50 years. The Bank offers a diversified range of banking and other financial products and services, including commercial and retail banking, credit cards, asset management and treasury and investment banking products and services. This range of products and services provides the Bank with an extensive asset base.

- *Leading positions in key products*

  Based on the Bank's in-house market survey as of 31 December 2016, the Bank is a market leader in key business segments including investment banking, trusts (where it ranks seventh among private local banks in the Philippines in terms of total trust assets under management), treasury operations and foreign exchange, and trade finance and international banking. In addition, the Bank is an established and well recognized provider of banking services to Filipino-Chinese businesses, foreign investors in the export processing zone areas, as well as Japanese multinationals. It has the most number of branches in export processing zones among banks in the Philippines. The Bank is a leader in the SME segment and has been actively expanding its presence in the microfinance sector.

- *Strong group synergies and support*

  As part of the YGC, the Bank is able to leverage a group-wide sales force to assist it in offering a wide range of products and services provided by other members of YGC, making it a "one-stop" financial centre for its customers. At the Bank's branches, customers may be referred to other YGC companies where, insurance products and other services are being offered.

- *Proven and experienced management team*

  The Bank has an experienced management team with a proven track record for successfully executing business plans and achieving results. 1 On July 2016, the Bank appointed Mr. Gil Buenaventura as President and Chief Executive Officer. Mr. Buenaventura holds directorship and officership positions in GAB Realty Incorporated, RCBC Capital Corporation, RCBC Leasing and Finance Corporation, RCBC Rental Corporation, Rizal Microbank, RCBC Savings Bank, RCBC Forex Brokers Corporation, and Niyog Property Holdings, Inc. He is also a member of the Makati Business Club, Asian Bankers Association, and Bankers Association of the Philippines. Before joining the bank, he worked in various capacities in other Banks and financial institutions, including the following: President and Chief Executive Officer of Development Bank of the Philippines, Chairman/Vice Chairman of the LGU Guarantee Corporation, President and Chief

Executive Officer of Prudential Bank, Chairman of Citytrust Securities Corporation, BPI Leasing Corporation, Pilipinas Savings Bank, and Prudential Investments, Inc., Director of BPI Family Savings Bank, and Ayala Plans, Inc., and Executive Vice President of Citytrust Banking Corp., and Vice President of Citibank N.A. Manila., among others. Mr. Buenaventura graduated from the University of San Francisco in California with a Bachelor of Arts in Economics in 1973, and from the University of Wisconsin in Madison, Wisconsin, with a Master of Business Administration in Finance in 1975.

- *Extensive and strategically located banking infrastructure and network*

  The Bank and RSB has an extensive and strategically located branch network throughout the Philippines. As of 31 March 2017, the Bank and RSB, excluding Government-owned and foreign banks, had the sixth largest branch net. The Bank's Corporate Banking Group ("CBG") accounted for approximately work in the Philippines, with a nationwide network of 489 branches, including 35 extension offices nationwide, supplemented by 1,502 ATMs. In addition, through its Global Filipino Banking/TeleMoney Segment ("GFB/TeleMoney"), the Bank has an approximate 3.92% market share in OFW remittances as of 31 March 2017. It is present in more than 16 countries through a number of centres, tie-ups and agents. It has the largest number of accredited door-to-door delivery couriers in the Philippines. In addition, remittances sent through OFB/Telemoney can be credited to RCBC accounts or any bank account in the Philippines; collected from any of the 489[A] branches of the Bank.

- *Use of technology as a differentiator*

  The Bank intends to use investments in technology to continually improve service to its clients. In 2009, the Bank acquired the Finacle Core Banking Solution from Infosys, to transform its IT landscape from the traditional mainframe legacy system to a more agile, open platform. The new core banking system covers, among others, deposits, loans, customer relationship management, trade finance, payments and fund transfers and cheque processing. The new platform went live in May 2012. The Bank has also developed technologically innovative products such as the MyWallet Card electronic stored value card, which gives customers a convenient and safe way to shop as well as to check their accounts and perform many other transactions domestically and internationally in a single ATM-sized card, and has expanded channels of distribution of the MyWallet Cards through tie-ups with Mercury Drug, LBC Express Inc., Super 8 Grocery Warehouse and 7-Eleven.

Strategy

The Bank aims to continue to grow its core business lines through the execution abilities of its experienced and revitalized management team, deepening relationships in the current markets that it services and expanding to selected new market segments through new and innovative products and an expanded distribution platform that will service the customers' wide range of needs.

The key elements of the Bank's strategy are as follows:

- *Increase earnings by growing its fee-based income, increasing profitability from existing customers and increasing volumes of low-cost current accounts and savings accounts with a focus on consumer, SMEs, the middle market and the microfinance sector*

  The Bank will remain focused on growing its corporate lending, consumer lending, middle market business and microfinance business throughout the Philippines. The Bank aims to increase its fee-based income from corporate, consumer and investment banking businesses, trust banking and bancassurance products and by growing its credit card business. The Bank plans to increase deposit volume by growing the customer base through various initiatives across different segments. Specifically, the Bank aims to target 200,000 customers transacting through electronic channels and aggressively target retail depositors by offering ATM-based products. The Bank aims to continue to build up its loan portfolio by actively pursuing opportunities in growth industries and refinancing activities as well as loan syndications in the corporate market. It also intends to capitalize on the various alliances forged with several Japanese and Chinese banks by offering products and services to multinational corporate clients while expanding capabilities with the transfer of technologies and best practices. In addition, strong focus will be given to building a strong consumer franchise inclusive of a large consumer credit portfolio. The Bank intends to increase its relationships in the growing middle market and microfinance market and further improve credit and portfolio quality through improved risk management capabilities. In this respect, the Bank acquired JP Laurel Rural Bank in Batangas and Merchants Bank in Mindanao in order to pursue micro-lending operations. The Bank intends to continue to seek opportunities to acquire other existing financial institutions with the view to expanding its lending base to cover the lower end of consumer lending in the Philippines.

- *Further expand the Bank's existing branch network while enhancing the effectiveness of the distribution network through the introduction of more electronic channels*

  The Bank will continue to consider acquisition opportunities, particularly focusing on well managed mid-sized banks and thrift banks which may enable the Bank to increase its resource base and expand its branch network and reach in a cost-efficient manner. In addition, the Bank is emphasizing the segregation of functions within branches to allow for greater focus on particular products. In order to coordinate this and to increase its efficiency, the Bank intends to continue developing technologies that will centralize the coordination and selling efforts of its branch network. To improve its distribution network, the Bank plans to significantly increase the number of multifunction ATMs in the next three to five years. This will be supplemented by the development of new electronic channels that will serve key needs of clients without going to a branch. In addition, the Bank will focus on improving the Bank's delivery channels via internet and mobile banking. The utilization of more electronic channels will contribute to reduction of operating costs per customer even as the Bank serves a much larger customer base.

- *Increase cross-selling to existing customers*

  The Bank plans to expand its business with existing customers through active cross-selling of an increasingly broader suite of products and services through the Bank's extensive distribution platform. While the branch network is currently used mainly to provide traditional banking services, the Bank plans to continue to train and develop its employees to enable them to focus on maximizing revenue through the sale of supplementary financial products, provided by both the Bank and YGC.

- *Focus on product development*

  In order to stay ahead of competitors and attract customers within the age group which is most populous in the Philippines, the Bank intends to focus on product development including enhancing its electronic business solutions to support the customers' requirements by adding more features to the Bank's internet banking platform and ATMs as well as introducing mobile phone banking to generate funding/transfer and payment fees. In addition, the Bank intends to strengthen its focus on providing a wider range of services to non-resident Filipinos with the introduction of products particularly tailored and branded to satisfy their requirements. These products and services include consumer loans, deposits, investment services, credit and cash cards, bills payment services, online and phone remittance, and money transfer services. The Bank shall continue to expand its presence where there is a high concentration of non-resident Filipinos.

- *Manage cost and increase operation efficiency*

  In addition to increasing revenue and cost management, the Bank also intends to seek ways to reduce its opportunity costs. One key component of the Bank's cost reduction is to continue implementing steps to accelerate the recovery of its NPAs. The Bank intends to continue the active disposition of NPAs in several ways including (a) intensified measures for collection, foreclosure, restructuring and debt for asset swaps, (b) enhancement of the Bank's property information database, (c) improvement of systematic enforcement of ownership control of assets, (d) introducing measures to ensure the cost effective administration of properties, and (e) clearly defined financial exit strategies for certain groups of assets. As the Bank invests in new technology systems, operations and procedures are expected to be streamlined. The support that these systems will provide should increase the capacity of the Bank to process more transactions in less time and with less cost per transaction given the higher volumes.

- *Attract and retain skilled and experienced personnel and priorities organizational development to optimize the Bank's human capital*

  The Bank seeks to strengthen its ability to attract and retain skilled and experienced personnel in order to serve clients better. Given the fast changing environment that the Bank operates in, the Bank is making a conscious effort to continuously focus on management and skills training by conducting and facilitating internal and external training programmes and developing technology-based tools to help increase employee efficiency.

Business

The Bank is a universal bank that offers a wide range of commercial, retail and corporate banking products and services. The principal products and services of the Bank include traditional loan and deposit products, treasury, trust banking, investment banking, cash management and credit card services. These businesses are categorized into six operating groups: Retail Banking, Corporate Banking, Trust and Investments, Treasury Group, Consumer Banking (principally through RSB) and Global Transaction Banking.

For financial reporting purposes, the Treasury Group includes Trust and Investments and the "Others" business segment includes the Global Transaction Banking and Consumer Banking (including RSB). See *"Management's Discussion and Analysis of Financial Condition and Results of Operations — Segment Information"*.

The following table sets out the consolidated pre-tax and minority interest income of the Bank's divisions and as a percentage of the total net profit before tax and non-controlling interest for the years ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018:

	Year ended December 31						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Retail Banking	(in ₱ millions)		(in ₱ millions)		(in ₱ millions)					
Retail Banking	2,169	45.00%	4,813	134.00%	5,345	105.50%	1,638	132.20%	1,336	95.80%
Corporate Banking	6,595	136.80%	7,190	200.20%	8,425	166.30%	1,963	158.40%	1,189	85.30%
Treasury Group	1,139	23.60%	2,391	66.60%	2,411	47.60%	452	36.50%	523	37.50%
Others	(5,082)	-105.40%	(10,802)	-300.70%	(11,115)	-219.40%	(2,814)	-227.10%	(1,654)	-118.70%
Total profit before tax and non-controlling interest	4,821	100.00%	3,592	100.00%	5,066	100.00%	1,239	100.00%	1,394	100.00%
Tax Expense (Income)	307	6.40%	277	7.70%	(756)	-14.90%	(236)	-19.00%	(261)	-18.70%
Non-controlling interest in net profit	—	—	(1)	0.00%	(2)	0.00%	(1)	-0.10%	(1)	-0.10%
Net profit	**5,128**	**106.40%**	**3,868**	**107.70%**	**4,308**	**85.00%**	**1,002**	**80.90%**	**1,132**	**81.20%**

The Retail Banking Group consists of branches offering a wide range of products and services to the Bank's various customers. As of 31 March 2018, the Retail Banking Group operated through 306 branches and 25 extension offices (excluding RSB and RMB branches).

The Bank continued to broaden its reach in the retail, SME, and corporate markets in 2017, as it capitalized on its strategically located business centers, 1,121 ATMs nationwide, and electronic channels.

RBG is at the forefront of this effort. While providing high quality service, its business centers intensified customer penetration with a diverse set of product offerings including traditional deposits, consumer loans through RCBC Savings Bank, SME business loans, Trust and Treasury investment products, pre-paid cards under the MyWallet brand, credit cards under the Bankard brand, and Bancassurance protection products such as life and non life insurance products of Sunlife-Grepa and Malayan Insurance Corporation, respectively.

Through collective and collaborative efforts among various units of the Bank, RBG continues to enhance and to innovate both product offerings and service delivery. Its Super Value Checking Account bundles the accessibility of a checking account, the convenience of a savings account, and the benefits of a tiered interest-bearing account. Its E-Woman Checking Account provides all these, but has other features focusing on the needs of women.

The pilot implementation of its lobby management system and the re-engineered account opening process was deployed in the first half of 2015. The system has already shown marked improvements in the delivery of services allowing greater convenience to customers. Its features include pre-staging of transactions and account opening not only in business centers, but also in a customer's home or office or while mobile.

In December 2014, the Bangko Sentral ng Pilipinas granted RCBC the authority to establish 50 business centers in Metro Manila. The added footprint capacity, within the still fastest growing area in the country, shall allow RCBC to strengthen its capacity to deliver quality service and to offer diverse product offerings to better service our growing customer base.

The Bank also recognizes technology as a tool and channel to meet the needs of its customers. Thus, the Bank is present in social media such as Twitter and Facebook, and continue to improve electronic banking channels with the re-launching of RCBC AccessOne internet banking platform.

With a larger footprint coupled with a continuous effort to enhance delivery channels with technological improvements, the Bank is confident of growing together with its customers and delivering the highest level of customer service in

the need for traditional and modern banking services.

Bancassurance

Previous BSP regulations on cross-selling required that banks shall only cross-sell financial products of a regulated entity belonging to the same financial conglomerate. A bank is required to make an investment of at least five% in an insurance company to allow it to enter into a bancassurance business and widen its product offering to include life and non-life insurance products. On 1 August 2014, the Monetary Board approved BSP Circular No. 844 covering the guidelines for the cross-selling of collective investment schemes ("CIS") and amendments of certain provisions of the MORB as provided under BSP Circular No. 801. Under the revision, simple insurance products such as traditional life, non-life, and other similar protection type insurance products, except variable insurance contracts, as governed by the Insurance Code ("IC") may be cross-sold inside bank premises regardless of whether the financial product provider belongs to the same financial conglomerate or not. CIS which include financial providers such as mutual funds registered by the SEC, Unit Investment Trust Funds ("UITFs") as authorized by the BSP, and variable unit-linked life insurance policies ("VULs") as governed by the IC or under the relevant rules and regulations as may be issued by the IC.

Share Swap with MICO Equities, Inc.

On 1 March 2010, the Bank purchased a 5.6% equity interest in MICO Equities, Inc. ("MICO"), Yuchengco group's holding company for its non-life insurance business, through a swap of 41,993,389 common shares of the Bank in exchange for 169,059 shares in MICO. This share swap allows the Bank to enter into a bancassurance partnership with MICO's subsidiary, Malayan Insurance Co. Inc. ("Malayan Insurance"). Under this partnership arrangement, Malayan Insurance's insurance products may be sold through the Bank's branch network throughout the Philippines.

Bancassurance partnership with Grepalife

In October 2009, the Bank sold one million shares in Great Life Financial Assurance Corporation ("Great Life"), representing 20% of the total outstanding shares of Great Life to Great Pacific Life Assurance Corporation ("Grepalife"). This sale facilitated the merger of Great Life and Grepalife thereby allowing Grepalife to enjoy the benefits of a stronger company with economies of scale, a wider customer base and market reach. The Bank has a five% interest in Grepalife and through such ownership retained its bancassurance partnership with Grepalife. The merger of Great Life into Grepalife allowed the Bank to continue to grow its bancassurance partnership with a more effective and bigger Grepalife.

Bancassurance relationship with Sun Life Financial

In February 2011, Sun Life Financial announced that it had entered into an agreement with GPL Holdings, Inc., a member of YGC, to acquire 49% of Grepalife Financial, Inc., which resulted in the creation of a restructured entity called Sun Life Grepa Financial, Inc. The new joint venture entity allowed Sun Life Financial Philippines to form a bancassurance relationship with the Bank and provide protection products to the bank's clients nationwide. Pursuant to the agreement, Sun Life Grepa Financial, Inc. has entered into an exclusive distribution agreement with the Bank, which has given rise to a line of insurance products that have been made available to the Bank's customer base through its branch network. The transaction received regulatory approval in February 2012.

Corporate Banking

The corporate banking group provides its corporate customers with a wide range of banking products and services, including deposit products, cash management services, revolving credit lines, medium- and long-term loans, project finance loans, foreign currency loans, trade-related financing, payment remittances and foreign exchange transactions. The corporate banking group caters to four customer segments: (i) large corporations, which play a major role in both the local and global economy; (ii) Japanese multinationals with a strong presence in the Philippines; (iii) Filipino-Chinese businesses; and (iv) SMEs. The Bank also has an established track record of servicing clients in special economic zones.

The Bank believes the corporate market will remain a growth area. To further enhance relationships with large corporate clients, assistance in the form of loans has also been offered to key suppliers, distributors, and other business partners of these clients under the Bank's supply chain financing program. Many of the corporate banking group's corporate clients are included in the list of the "Philippines' Top 1000 Corporations" published annually by BusinessWorld.

The Bank provides corporate lending and cash management services to Japanese entities that operate in the Philippines, many with whom the Bank has had long-standing relationships. The Bank established many of its relationships with Japanese clients through its affiliation with UFJ. The Bank believes that it has established a strong reputation among

Japanese entities and that it will continue to be competitive in this sector following UFJ's disposal of the Bank's shares. The Bank employs two Japanese officers to strengthen its relationship with its Japanese clientele and defend its market share from increasing competition.

The corporate banking group also specializes in providing banking services to clients located in special economic zones, particularly Japanese clients. Special economic zones, or "ecozones", are independent communities within the Philippines that administer their own economic, financial, industrial and tourism development. Companies that operate within ecozones receive certain tax benefits and must meet certain standards of operations. As of 31 March 2018, there were 74 active operating manufacturing ecozones in the Philippines. As of the same date, the Bank has established 25 branches within the area of certain ecozones to better serve its customers.

CBG is also a leading provider of corporate banking services to Filipino-Chinese clients focusing on trade finance to finance import requirements. The Bank believes that its membership in YGC, which includes a number of Filipino-Chinese companies, is an asset in attracting and maintaining Filipino-Chinese customers. This is therefore an area in which the Bank will continue maintain a strong presence.

After consolidating its SME lending from RBG to CBG, the Bank initiated a five-year business plan in 2008 aimed at strengthening its presence in the SME market. This involved changing the Bank's loan origination and administration processes, strengthening organisation, and using technology to bring the Bank closer to SMEs. The Bank implemented a new screening system for loans, introduced credit scoring, simplified handling of existing accounts, and opened additional SME offices around the country increasing the number of lending centres from four to nine.

In the third year of the business plan, the Bank introduced the first ever internet-based loan self-assessment service in the country in response to BSP's call for banks to make themselves more accessible to SMEs. Despite higher costs, SMEs often opted to approach informal lenders instead of banks either because of a lack of familiarity with banking requirements or because they found compiling documents for bank loans difficult or personal interviews intimidating. The Bank developed its business web portal, www.getaloan.com.ph, as part of its capacity building for SMEs. The main feature of the website is a loan self-assessment exercise where potential borrowers are asked 15 questions. At the end of the exercise, the potential borrower will be told whether he qualifies for a loan. Only when the applicant is qualified is he asked about his personal information and contact details. Once submitted, a loan officer contacts the applicant within 48 hours. At present, the website receives an average of 1,500 visits per month.

During the first half of 2012, the Bank formally launched another first in the Philippine banking industry – the phone version of its loan self-assessment exercise – the "Phone-A-Loan" programme. It allows SMEs to conduct a loan self-assessment prompted by an interactive voice response system. The Bank also launched another first – the "Women's Enterprise Loan", a loan programme designed specifically for women entrepreneurs. Its features include loans to employees, priority banking lanes, discounts on insurance, pre-approved credit cards as well as perks and bonuses from selected merchandise partners, health spas and fitness centres.

These SME initiatives earned both local and international awards for the Bank. In 2010, the Anvil Award of Merit was given to the Bank by the Philippine Society of Public Relations for its www.getaloan.com.ph business web portal. Most recently, Asian Banking & Finance Publication awarded the Bank Philippine Domestic Technology & Operations Bank of the Year for its Phone-A-Loan programme and Philippine Domestic SME Bank of the Year for 2012.

The Bank continues to expand its reach in the SME market. The Bank further increased its lending centres from nine to 27 as of 31 March 2017.

The short-term credit facilities that CBG provides are principally for working capital. Trade-related credit facilities include foreign and domestic letters of credit and trust receipt lines as well as export advance lines and the discounting of commercial bills. Long-term loans (i.e. those with maturities in excess of one year) are generally in the form of project financing loans. These include loans to finance the construction or acquisition of plant, factories or buildings, the acquisition of equipment, and other capital expenditures.

CBG offers both Peso-denominated and foreign currency-denominated (primarily U.S. dollar) loans. The Bank's policy is to extend foreign currency loans only to exporter customers who have foreign currency revenues or are otherwise hedged. Most of CBG's corporate loans are made on a floating rate basis. CBG's corporate lending is made on both syndicated and non-syndicated bases.

The Bank also offers products from the Treasury Group to support its corporate clients' increasingly sophisticated needs through funding and hedging products. CBG has successfully assisted clients in accessing long-term capital via public market offerings and other debt and quasi-equity funding structures.

Treasury Group

The Treasury Group is composed of the following: the Balance Sheet Management Segment, the Commercial Trading and Sales Segment, the Investments and Markets Trading Segment and the Financial Institutions Management Division. The following describes the key functions of the segments/division:

- The Balance Sheet Management Segment handles cash flow management, medium- to long-term funding and asset/liability management and pricing.

- The Commercial Trading & Sales Segment consolidates commercial trading and distribution of Treasury products to clients.

- The Investments and Markets Trading Segment handles proprietary risk-taking from market views and analysis.

- The Financial Institutions Management Division is responsible for the correspondent banking business, including expanding liability sources and exploring new trade product structures from its relationships with other financial institutions.

Total Investment Portfolio

The following tables set forth, as of the dates indicated, information relating to the Group's total investment portfolio.

	Year ended December 31,												Three months ended March 31							
	2015				2016				2017				2017				2018			
	Book Value	Market Value	Unrealized Gain	Unrealized loss	Book Value	Market Value	Unrealized Gain	Unrealized loss	Book Value	Market Value	Unrealized Gain	Unrealized loss	Book Value	Market Value	Unrealized Gain	Unrealized loss	Book Value	Market Value	Unrealized Gain	Unrealized loss
	(in millions)																			
Government securities	57,349	55,621	—	—	40,812	35,953	—	—	43,430	41,602	—	—	42,543	37,774	—	—	57,166	55,438	—	(33)
Other Debt Securities	46,310	45,872	—	—	26,388	23,315	—	—	21,396	19,642	—	—	28,882	26,085	—	—	24,925	26,056	—	(17)
Total debt securities	**103,659**	**101,493**	**—**	**—**	**67,200**	**59,268**	**—**	**—**	**64,826**	**61,244**	**—**	**—**	**71,425**	**63,859**	**—**	**—**	**82,091**	**81,494**	**—**	**(50)**
Non-debt Securities	7,542	7,542	689	—	8,422	8,422	1,965	—	8,106	8,106	1,872	—	7,497	7,497	2,063	—	6,588	6,588	1,970	(39)
Total	**111,201**	**109,035**	**689**	**—**	**75,622**	**73,456**	**1,965**	**—**	**72,932**	**69,350**	**1,872**	**—**	**78,922**	**71,356**	**2,063**	**—**	**88,679**	**88,082**	**1,970**	**(89)**

Fair Value Through Other Comprehensive Income

The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at fair value through other comprehensive income in accordance with PFRS 9.

	Year ended December 31,												Three months ended March 31							
	2015				2016				2017				2017				2018			
	Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized		
	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss
	(in ₱ millions)																			
Government securities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,810	1,810	—	(33)
Other Debt Securities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,122	1,122	—	(17)
Total debt securities	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,932**	**2,932**	**—**	**(50)**
Non-debt Securities	4,208	4,208	689	—	5,679	5,679	1,965	—	5,363	5,363	1,872	—	5,613	5,613	2,063	—	5,814	5,814	1,970	(39)
Total	**4,208**	**4,208**	**689**	**—**	**5,679**	**5,679**	**1,965**	**—**	**5,363**	**5,363**	**1,872**	**—**	**5,613**	**5,613**	**2,063**	**—**	**8,746**	**8,746**	**1,970**	**(89)**

Financial Assets at Fair Value Through Profit or Loss

The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at fair value through profit or loss.

	Year ended December 31,												Three months ended March 31							
	2015				2016				2017				2017				2018			
	Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized		
	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss
	(in P millions)																			
Government securities	1,256	1,256	—	—	14,822	14,822	—	—	4,386	4,386	—	—	2,482	2,482	—	—	3,387	3,387	—	—
Other Debt Securities	522	522	—	—	514	514	—	—	462	462	—	—	1,294	1,294	—	—	2,270	2,270	—	—
Total debt securities	**1,778**	**1,778**	**—**	**—**	**15,336**	**15,336**	**—**	**—**	**4,848**	**4,848**	**—**	**—**	**3,776**	**3,776**	**—**	**—**	**5,657**	**5,657**	**—**	**—**
Non-debt Securities	3,334	3,334	—	—	2,743	2,743	—	—	2,743	2,743	—	—	1,884	1,884	—	—	774	774	—	—
Total	**5,112**	**5,112**	**—**	**—**	**18,079**	**18,079**	**—**	**—**	**7,591**	**7,591**	**—**	**—**	**5,660**	**5,660**	**—**	**—**	**6,431**	**6,431**	**—**	**—**

Market Unrealized Unrealized

Amortized Cost

The following table sets forth, as of the dates indicated, information related to the Bank's financial assets at amortized cost in accordance with PFRS 9.

	Year ended December 31,												Three months ended March 31							
	2015				2016				2017				2017				2018			
	Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book	Market Unrealized Unrealized			Book			
	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss	Value	Value	Gain	loss
	(in ₱ millions)																			
	56,093	54,365	—	—	25,990	21,131	—	—	39,044	37,216	—	—	40,061	35,292	—	—	51,969	50,241	—	—
	45,788	45,350	—	—	25,874	22,801	—	—	20,934	19,180	—	—	27,588	24,791	—	—	21,533	22,664	—	—
	101,881	**99,715**	**—**	**—**	**51,864**	**43,931**	**—**	**—**	**59,978**	**56,396**	**—**	**—**	**67,649**	**60,083**	**—**	**—**	**73,502**	**72,905**	**—**	**—**
	—	—	—	—	—	—	—	—	—	—	—	—	0	0	—	—	0	0	—	—
	101,881	**99,715**	**—**	**—**	**51,864**	**49,698**	**—**	**—**	**59,978**	**56,396**	**—**	**—**	**67,649**	**60,083**	**—**	**—**	**73,502**	**72,905**	**—**	**—**

Trust and Investments

The Trust and Investments Group has an established track record in trust and asset management. As of 31 March 2018, the Bank has unconsolidated Trust assets of ₱ 61.99 billion. On a consolidated basis, its Trust assets of ₱ 89.13 billion as of 31 March 2018, ranked seventh among local and foreign trust entities doing business in the Philippines. Trust, investment management and other fiduciary accounts continued to account for the bulk of the Bank's trust arrangements. These consist of retirement funds, institutional trust funds, pre-need accounts, personal trusts and investment management arrangements, which accounted for 85.92% of total trust assets as of 31 March 2018. The balance consists of the volume of pooled funds. The Bank offers its trust products to corporate and institutional investors as well as to high net-worth individuals and retail investors requiring low minimum thresholds.

The Bank has been active in garnering roles in several public listed securities, being appointed by major industry player companies as receiving bank, escrow bank and/or stock transfer agent for preferred shares issuances and initial public offerings (IPO) as well as trustee for bond issuances.

In September 2004, the BSP issued Circular No. 447 which provided guidelines for the launching and offering of Unit Investment Trust Funds ("UITFs"). UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organized exchange, loans traded in an organized market and such other tradable instruments as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. In issuing this circular, the stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. The Bank has a total of eight UITFs, five of which were launched in 2005, one in 2009 and two new UITFs were launched in the latter part of 2014. These products include Peso and U.S. dollar denominated money market and fixed income funds, a local balanced fund and local and global equity funds.

The Bank has made an active effort to promote and educate investors regarding UITFs and increased its UITF volume in 2006. Beginning in May 2007, however, UITF volume showed a declining trend from the end-2006 level as a result of the shift in clients' interest to the BSP's Special Deposit Accounts, which were made available to investors through trust institutions. In 2013, access to the BSP Special Deposit Account facility was closed to accounts booked under IMA and agency agreements which prompted investors to shift to UITFs again as they scout for alternative high-yielding investments. As of 31 March 2017, UITF volume showed an increase of ₱ 0.4 billion or 6% compared to 31 December 2016 due to the continued aggressive push for UITFs.

The two UITFs launched in 2014 were the Rizal Peso Cash Management Fund (RPCMF) and the Rizal Global Equity Feeder Fund (RGEFF). The RPCMF is a money market fund that provides high liquidity and competitive yields to high net worth individuals, corporate and institutional accounts. The RGEFF is a feeder fund that invests at least 90 percent of its portfolio in the Morgan Stanley Global Quality Fund. It provides clients convenient access to global equity markets at an affordable investment amount. The RGEFF takes advantage of the BSP Circular issued in 2012 that allows trust institutions to offer UITFs with either a feeder fund or fund-of-fund structure.

In 2016, the Chartered Financial Analysis (CFA) Society Philippines had its maiden search for the Best Managed Fund of the Year and one of the Bank's UITF, the Rizal Dollar Bond Fund placed Third in the Best Managed Fund for Bond Fund - Long-term Dollar Category. Another prestigious award-giving firm, The Asset Benchmark Research lauded one of the Bank's senior fixed income trader among the Top Ten Most Astute Investors in Asian Local Currency Bonds Category.

In 2016, the Chartered Financial Analysis (CFA) Society Philippines had its maiden search for the Best Managed Fund of the Year and one of the Bank's UITF, the Rizal Dollar Bond Fund placed Third in the Best Managed Fund for Bond Fund - Long-term Dollar Category. Another prestigious award-giving firm, The Asset Benchmark Research lauded one of the Bank's senior fixed income trader among the Top Ten Most Astute Investors in Asian Local Currency Bonds Category.

RCBC eTRUST is one of the value-added services provided by RCBC Trust that differentiates it from its competitors. RCBC eTRUST, an online facility, allows RCBC Trust clients to view their latest financial statements or statements of account as soon as they are available.

In 2012, RCBC Trust launched its Retail Employee Savings Plan or RESP. This product aims to promote personal savings among a company's employees by having an affordable and convenient way of setting aside funds through automatic deductions from their payroll on a monthly basis. The employees are able to access potentially higher returns with minimum contributions.

With major technology initiatives on the roll, the Bank implemented homegrown systems, the Administrative Review

Monitoring System (ARMS) in May 2015 and the Trade Order Monitoring System (TOMS) in May 2016. ARMS facilitates the periodic administrative review of trust accounts by Portfolio Managers that allows them to systematically monitor the progress of the account reviews. TOMS, on the other hand, is a real-time risk management system that ensures the compliance of Trust Portfolio Managers and Trust Traders with regulatory limits, internal limits and the investment parameters prescribed by the clients. Both systems also serve as management's tools for compliance monitoring.

Under existing BSP regulations, the Bank is required to deposit government securities with a value equivalent to 1.0% of the average book value of the total volume of trust, fiduciary and investment management assets with the BSP as security for the performance of its trust duties. In addition, an amount equal to 17.0% of the volume of certain trust accounts classified under BSP regulations as Trust and Other Fiduciary Accounts. Others are required to be maintained in the form of demand deposit accounts with the BSP. UITFs are however exempt from such reserve requirements. BSP regulations also prescribe that loans granted by trust accounts (excluding UITFs) to the Bank's directors, officers, stockholders and related interests ("DOSRI") are included in determining the Bank's compliance with the regulatory limits on DOSRI loans. In managing UITFs, the combined exposure of the fund in any entity and its related parties shall not exceed 15% of the market value of the fund, except in the case of exchange traded equity securities where the maximum exposure of the UITFs is the actual benchmark index weighting of the issue or 15% of the market value of the fund, whichever is higher. These exposure limits prescribed for UITFs do not apply to non-risk assets as defined by the BSP.

Consumer Banking

The Bank's Consumer Banking primarily provides mortgage loans and auto loans through RSB and issues credit cards. The Bank's branches, both commercial and savings, provide promotional materials on consumer loans, credit cards and insurance products.

RCBC Savings Bank

In 1996, RCBC Savings Bank ("RSB") was established as the Bank's thrift banking arm and was subsequently bolstered by the acquisition of Capitol Development Bank, a thrift bank, in 1998. RSB is a wholly-owned subsidiary of the Bank and is operated separately and branded differently from the Bank. As of 31 March 2018, RSB had 149 branches and five extension offices (two in Metro Manila and three in the Luzon region), through which it takes deposits and offers consumer loans products.

RSB offers its customers a wide variety of deposit products and also offers consumer loan products such as home mortgage loans, auto loans and personal/salary-deducted loans, which made up approximately 50.65% (₱ 42.81 billion), 44.94% (₱ 37.99 billion) and 0.58% (₱ 489.00 million) of its total loan portfolio as of 31 March 2018.

The following table provides a breakdown of total consumer loans as of the dates indicated:

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(in ₱ millions)				
Home mortgage loans	33,856	37,031	41,668	37,773	42,812
Automobile loans	23,356	31,410	36,380	32,667	37,987
Salary / Personal loans	633	455	448	427	489
Others	5,321	3,688	3,332	3,576	3,237
Total	63,166	72,584	81,828	74,443	84,525

RSB's total assets amounted to ₱ 117.73 billion as of 31 March 2018, making it the third largest thrift bank in terms of assets (based on published balance sheets). RSB was also the third largest thrift bank in terms of deposits and loans as of the same period (based on published balance sheets).

Total net income for RSB amounted to ₱ 1.27 billion, ₱ 1.01 billion, ₱ 1.35 billion, ₱ 311.21 million and ₱ 318.84 million, respectively, for the years ended 31 December 2015, 2016 and 2017 and for the three months ended 31 March 2017 and 2018, accounting for 25.95%, 27.20%, 26.21%, 25.13% and 22.86%, respectively, of the Bank's consolidated pre-tax income. As of 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018, RSB's total capital adequacy ratio was 13.55%, 13.44%, 14.03%, 13.25% and 13.70%, respectively.

Residential Mortgage Loans

The residential mortgage loans have a term of one to 20 years with loan amounts starting from ₱ 300,000.00 and above. Home mortgage loans are secured by a first mortgage on the property being purchased. Such loans are insured with the Home Guaranty Corporation (HGC) and may be called upon if the borrower misses payments for six months or more. Mortgage loans are typically payable in monthly amortising payments based on market-linked interest rates with terms of one to five years. The Bank may lend up to 80% of the internally-appraised value of house and lots. The Bank requires borrowers to obtain both fire insurance and mortgage redemption insurance and will generally refer these customers to the Bank's insurance brokerage.

All RSB mortgage loans are secured by a first legal charge on the property. In addition, RSB generally requires residential mortgage borrowers to have an equity interest of at least 20.0% of the value of the property, including loans guaranteed by the HGC.

Auto Loans

RSB also provides auto financing to individuals, mainly for the acquisition of new vehicles, although RSB also fiances the acquisition of second-hand vehicles and provides general purpose loans secured by customer's vehicles. As of 31 March 2018, the Bank had ₱ 37.99 billion in auto loans. RSB's auto loans are typically between ₱ 600,000.00 and ₱ 700,000.00 in amount and for terms of between 48 and 60 months on average. The minimum and maximum terms are 12 and 60 months, respectively. The applicable interest rate is generally fixed with an amortizing repayment schedule over the term of the loan. RSB also typically lends up to 80.00% of the value of a new car. For second-hand vehicles, RSB lends up to 70.00% of the appraised value or selling price (whichever is lower).

RSB's auto loans are generated from car dealerships, independent sales agents, and sourced internally through branch referrals, walk-in clients and refinancing. RSB also provides economic incentives to car dealerships and independent sales agents based on each approved auto loan amount.

All of RSB's auto loans are secured by a first legal charge over the cars being purchased. In addition, RSB generally requires car buyers to make a minimum down payment of 20% of the purchase price. The interest rate of RSB's auto loans are competitive and range from 8.0% to 10.0%

RSB's policy towards foreclosure proceedings on auto loans is more conservative than that typically followed in the Philippine banking industry. RSB commences foreclosure proceedings when an instalment payment falls past due for 90 days, as opposed to 121 days for most banks. It generally takes between five to eight months from the past due date to foreclose on the car, which is then sold through a public auction.

Personal and Salary Loans

The Bank offers two products: personal loans and salary loans. Personal loans are offered to prospective customers who apply on an individual basis, while the Bank offers salary loans through the respective companies at which customers are employed. As of 31 March 2018, the Bank's personal loan portfolio comprised ₱ 210.23 million, while the Bank's salary loan portfolio comprised ₱ 278.49 million.

The Bank offers unsecured personal loans in amounts from ₱ 50,000.00 to ₱ 1.0 million, although the current average is at ₱ 200,000.00. Payment is through issuance of post-dated cheques or automatic debit arrangement. Salary loans, which are only offered through accredited companies and by way of salary deduction, range from ₱ 20,000.00 to ₱ 500,000.00 with a current average of ₱ 90,000.00.

Micro Finance

High, but sustainable, growth in the high yielding microfinance market is a key part of the Bank's strategy, capturing market share in what the Bank views as the major engine of growth in the Philippines banking sector, a segment that is generally regarded as under-banked. That growth will be assisted by the Bank's strategy of cross-selling across business segments to similar and overlapping customer segments. In order to preserve asset quality, the Bank is focused on targeted growth, and carefully selects the customer segments it markets to in each business sector to ensure sustainable growth, with carefully managed NPL rates and low cost of credit.

RCBC's venture into microfinance through its subsidiary Rizal MicroBank has consistently shown tremendous growth and improvement since it started its operation in mid-2010. For the past six years, Rizal MicroBank continuously posted double-digit growth in major key performance indicators such as loan disbursement, loan portfolio, active borrowers and average portfolio yield while keeping portfolio quality within the international best practice standard of 5% and below for Portfolio-At-Risk Ratio (PARR) More Than 7 Days (PARR More than 7 Days as of end-2016 is at

4.65%). As a result of concerted efforts to improve operations, Rizal MicroBank registered monthly positive income beginning May 2016 and sustained this until December 2016, enabling the subsidiary to drastically bring down its previous net losses to just a single-digit, thereby almost completely turning-around the microfinance operation in 2016. Rizal MicroBank's bottomline as of year-end 2016 stood at negative ₱ 3.3 million, a vast improvement from the 2015 net loss of almost ₱ 65 million. This milestone in the very young history of Rizal MicroBank is very much aligned with the international experience of microfinance start-ups achieving their break-even levels between six to eight years in operation.

With the Bank's acquisition of JP Laurel Rural Bank in Batangas and Merchants Bank in Mindanao in 2009 and 2008, respectively, the Bank is able to leverage off JP Laurel Rural Bank's branch network in Batangas and Merchants Bank's branch network in Mindanao in order to expand its micro-lending operations. An integration of microfinance operations in Luzon and Mindanao was undertaken in 2012 under Merchants Bank which was re-branded – Rizal Microbank, a thrift bank of RCBC. The Bank opened two new branch offices in Tagum City, Davao del Norte, and Digos City, Davao del Sur in Mindanao in February 2012 and its first Microbanking Office (MBO) in Lipa City, Batangas in October 2013. In the first semester of 2014, Rizal Microbank opened four new branches in Mindanao specifically in Cagayan de Oro City, Gen. Santos City, Valencia City and Butuan City, and four new Microbanking Offices – two in Luzon (Sta. Cruz and San Pablo City, both in Laguna) and two in Mindanao (Panabo City and Tacurong City), thus bringing its total lending network up to 23. As of 31 December 2016, the Bank had microfinance lending operations in 47 locations in Southern Luzon and Southern Mindanao – all served out of its 18 branches and five microbanking offices. Micro finance loans are provided in amounts of a minimum of ₱ 5,000.00 and maximum of ₱ 300,000.00 and with an average maturity of 120 days. As of 31 March 2018, the total outstanding loans of Rizal Microbank amounted to ₱ 1.02 billion, with 2,999 borrowers and a recorded loan disbursement of ₱ 419.56 million in the first quarter of 2018. The Bank believes that growth in its microfinance client base can lead to growth in its SME business.

Deposit Products

RSB provides its customers with a variety of deposit accounts, including non-interest bearing demand deposits, interest-bearing combinations of check book and savings accounts (including savings accounts, checking accounts, time deposits, and premium time deposits) and fixed and floating rate savings accounts. In addition to offering conventional deposit products, RSB offers a variety of special value-added products and services thereby increasing product offerings and providing greater convenience for customers, including products tailored for OFWs and their beneficiaries who remain in the Philippines and U.S. dollar time deposits.

With total deposits of ₱ 101.41 billion, RSB ranked third in terms of total deposits among other thrift banks as of 31 March 2018. This represented 25.68% of the Bank's consolidated deposits. Total net income of RSB amounted to ₱ 318.84 million for the three months ended 31 March 2018, accounting for 22.86% of the Bank's consolidated pre-tax income.

Credit Card Operations

Since acquiring substantially all of the assets of Bankard (a subsidiary of the Bank) in December 2006, the Bank has been conducting credit card operations at the parent company level. Under the terms of the acquisition, RCBC acquired, among other things, ₱ 7.2 billion of credit card receivables and certain building units. The consideration for the sale included the assumption of certain liabilities and the set-off of certain debts owed by Bankard. Following the sale, RCBC wrote off ₱ 2.6 billion of credit card receivables acquired from Bankard against allowances for impairment. Bankard maintained ₱ 3.2 billion of overdue receivables for which it has made full provision.

Bankard and the Bank have entered into a services agreement pursuant to which the Bank has outsourced the servicing of its credit card business to Bankard. These services include marketing, distribution, technical, collection, selling assistance and processing services. On 18 October 2013, the Board of Directors of RCBC approved the sale of its 89.98% collective stake in Bankard, Inc. to RYM Business Management Corp. together with other investors. In view of the change in ownership and management, the credit card operations of RCBC was transferred from Bankard to RCBC Bankard Services Corp., a wholly owned subsidiary of RCBC Capital Corp., effective 16 December 2013.

The Bank is engaged in two principal credit card activities: card issuing and merchant acquiring. The Bank derives income from annual fees charged to cardholders, transaction commissions from merchants, fees on cash advances and interest income on outstanding card receivables, currently at the rate of 2.0 to 3.5% per month and, on penalties for past due accounts, ranging from ₱ 200.00 to 7.0% of past due amount per month. Annual cardholder fees range from ₱ 720.00 to ₱ 3,600.00. The interest rates on deferred and instalment payments range from 22.6% to 34.6% per annum. The total amount of cash advance is limited to 30.0% to 50.0% of credit limit with a cap of ₱ 100,000.00 to ₱ 250,000.00, respectively. Interchange fees range from 0.3% to 2.3%. Funding for the Bank's credit card operations is provided by a combination of internally generated funds and retained earnings.

Credit Card Issuance

The Bank has been licensed by each of Visa International ("Visa"), Mastercard International Inc. ("Mastercard"), Japan Credit Bureau ("JCB") and UnionPay International ("UPI") to issue credit cards under each respective brand. According to the Credit Card Association of the Philippines' industry report for 31 March 2017, RCBC Bankard was the fifth largest credit card brand in the Philippines in terms of credit cards issued and issuing billings.

The Bank's strategic plan focuses on increasing the number of credit cards issued and growing the credit card receivable portfolio.

As a necessary support to credit card issuance, the Bank offers its customers an "Interactive Voice Response System", a customer hotline service through a call centre operated 24 hours a day seven days a week, on-line statement-of-account viewing and statement fax-on-demand, all free of charge.

As of 31 March 2018, total outstanding credit balances amounted to ₱ 16.57 billion. The delinquency rate on balances overdue for more than 30 days was 4.03% as of 31 March 2018. In August 2003, the BSP issued Circular No. 398 under which credit card companies were required to move from measuring delinquencies by bucketed aging, which classifies outstanding balances depending on when the balance becomes due, to accelerated aging whereby all the receivables from a single cardholder are aged-based on the longest dated overdue charge, even if there are other charges for such account which may not be overdue.

The following table sets out Bankard's total credit card balance, credit card numbers, revenue, net income, total credit billings and delinquency rates as of and for the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(₱ millions, except credit cards outstanding and delinquency rate)				
Cardholder fees and commission income	856	1,002	1,177	255	327
Merchant acquirer commissions	63	62	68	16	20
Net interest income (loss)[1]	2,382	2,534	2,940	689	833
Operating income	1,687	1,763	2,049	488	598
Provisions for loan losses	830	726	740	182	287
Credit card balances[2]	10,498	12,328	16,011	12,511	16,574
Credit card charge volume[3]	25,961	31,819	39,132	8,639	10,927
Credit cards outstanding (in thousands)	498	532	579	518	602
Delinquency rate[4]	5.8	4.7	4.1	4.2	4.0

Notes: All amounts are based on the credit card business in RCBC's books (based on simple summation of the amounts).

(1) Includes financing income net of funding cost.

(2) Includes credit card loans from current to 179 days past due.

(3) Charge volume is equivalent to gross billings of cardholders.

(4) Delinquent balances are those that are overdue for 30 to 179days. Delinquency rate equals the total delinquent balance divided by total credit card receivables current to 179 days past due.

RCBC Bankard credit cards are sold through the RCBC and RSB branch network, other YGC companies and business partners through the RCBC Bankard co-brand partnerships. Credit card acquisition is also promoted via direct sales and telesales, direct mailings, magazines, inserts, sponsorships, events and building blitzes.

Merchant Acquiring

As of 31 March 2018, the Bank had relationships with approximately 2,594 head office merchants and 8,098 merchant outlets. During this same period, the Bank's top 200 merchant relationships (i.s. POS swiped transactions) accounted for more than 92.90% of the Bank's total credit card billings. As of 31 March 2018, the Bank's acquiring volume and gross merchant discount amounted to ₱ 5,603.40 billion and ₱ 78.20 million, respectively.

Branch Banking

As of 31 March 2018, the Bank had a total of 508 branches including 35 extension offices, of which 331 branches belonged to the Bank, 154 to RSB and 23 to RMB. As of the same date, the Bank had a total of 1,580 ATMs, of which 1,121 belonged to the Bank and the remaining to RSB. Each of the Bank's and RSB's branches is connected and networked to the Bank's IT systems and infrastructure located in the Bank's head office. The Bank plans to selectively expand its branch network through the opening of new branches and the opportunistic acquisition of small-to medium-sized banks with networks that will complement RCBC's existing network. The Bank has endeavored to transform the branches into effective sales and service channels that will focus on low-cost deposits generation, acquisition of retail customers, and referral of bank and other YGC products. The Bank is also developing alternative development channels aimed at migrating customer transactions from the counter, thereby freeing up branch personnel to concentrate on selling and more value-adding activities. In the medium-term, the Bank will seek to boost other income by offering more fee-based services. As a result of the BOB Incident, BSP required the Bank to reform the staffing of its branches by separating sales staff from operations staff, requiring that each have their own separate reporting lines. While the separation of sales and operations staff has resulted in the Bank needing to hire additional branch staff, increasing its employee costs, this has also led to opportunities for the Bank, as it now has a dedicated team of staff who can dedicate their time exclusively to sales efforts.

The following table sets out details of the Bank's branches (excluding RSB), ATMs, and extension offices in operation as of the specified dates:

	As of December 31,			As of March 31,	
	2015	**2016**	**2017**	**2017**	**2018**
Branches					
Metro Manila (incl. Cainta and Taytay)	107	124	150	131	150
Luzon	73	76	75	75	75
Visayas	41	42	42	42	42
Mindanao	38	39	39	39	39
Total	**259**	**281**	**306**	**287**	**306**
ATMs	906	1,047	1,103	1,055	1,121
Extension offices	26	25	25	25	25

The following table sets out the details of RSB's branches in operation as of the specified dates:

	As of December 31,			As of March 31,	
Branches	**2015**	**2016**	**2017**	**2017**	**2018**
Metro Manila (incl. Cainta and Taytay)	66	66	66	66	66
Luzon	52	54	56	56	56
Visayas	17	17	17	17	17
Mindanao	10	10	10	10	10
Total	**145**	**147**	**149**	**149**	**149**
ATMs	436	441	459	447	459
Extension offices	5	5	5	5	5

The Bank provides 24-hour banking services through its ATM facilities, which are located in various branches and at off-site locations, such as client sites to render payroll service, and shopping malls. Customers are given access to the ATM facilities through ATM cards, which are issued to checking and savings account holders. The Bank is a member of the Bancnet ATM consortium, which allows its customers to use the ATMs of other banks in the Philippines and similarly allows other banks' customers to use the Bank's ATM network.

Customer service is further improved through tight management and close monitoring of each branch. The RBG manages the branch network of the Bank, while RSB monitors its own branches. The Bank's management information system monitors each branch's profitability, and each branch accounts for its own expenses and revenues. Branch managers, through their respective area and region heads, regularly communicate with the head of the RBG to discuss branch performance. In addition, each branch is subject to monitoring by the Bank's Anti-Money Laundering Act and a periodic compliance testing by the Bank's AML Department. Branches are also subject to a comprehensive audit conducted by the Bank's Internal Audit Group every 12 to 24 months.

Each of the Bank's branches has electronic security systems and armed guards, provided by independent contractors. The Bank also ensures that the amount of cash held in the vaults of its branches is maintained within authorized limits.

Alternative Delivery Channels

Internet and Mobile Banking

The Bank's internet banking platform was launched in 2006 under the name my RCBC Access One, before rebranding in 2016 to RCBC Online Banking for Retail ("**ROR**"). With now more than 300,000 retail clients enrolled, the ROR allows clients to conveniently access and perform various account-related services, including account information queries, fund transfers, and bill payments. Various enhancements were introduced to ROR in 2017, such as the introduction of Electronic PC Pins, a security feature that enables users to lock and unlock their ATM and pre-paid cards or to reload electronic wallets, like PayMaya, using a RCBC account.

ROR is also available on mobile devices, allowing the Bank's customers to access their accounts using their iPhone, iPad, iPod touch and/or Android device once they are registered with ROR. ROR applications may be downloaded from the Apple App Store and Google Play Store for free.

Card Payment Solutions: Prepaid Stored Value Cards, Debit Cards

The Bank's digital strategy includes the growth and development of card solutions. DBG has successfully launched the MyDebit Card powered by MasterCard, which allows clients to access to millions of ATMs and merchants locally and worldwide. The Bank's debit cards require a minimum balance of ₱ 3,000.00 and are linked to a deposit account. The Bank also offers pre-paid cards are under the RCBC MyWallet Visa brand, which do not require any minimum balance. The RCBC MyWallet Card can be "loaded" with cash through the Bank/RSB branches, LBC outlets or via a funds transfer from a Bank/RSB deposit account. As of 31 March 2018, the Bank had outstanding a total of 545,200 pre-paid cards and 711,533 debit cards. The bank has successfully migrated to Euro MasterCard Visa technology in order to enhance the security of its cards.

Call Centre

In October 2003, the Bank established a 24-hour call centre, which handles all inbound inquiries for current and savings accounts, as well as ATM, remittance and stock transfer services offered by the Bank. The RCBC Contact Centre does not handle credit card products and services, which are handled by the Bankard call centre.

Global Transaction Banking

The Global Transaction Banking Group has two main businesses under its responsibility: Corporate Cash Management ("CCM") and the Global Filipino Banking ("GFB"). With a very broad range of customers, GTBG through the use of technology, local and international tie ups, the Bank's branch network, and through continuous innovations and improvements to its core services, is tasked to deliver the appropriate solutions to its various target markets.

Corporate Cash Management (CCM)

CCM is tasked to create a whole suite of cash management solutions designed for the SMEs all the way up to Large Conglomerates. CCM's services can be broadly classified under two main types: Collections and Disbursements. The

main channel of delivery and information of its services is RCBC's corporate internet banking system.

In 2016, CCM achieved its deposit growth target of ₱ 54 billion. This translated to volume growth of 11% for payments and 14% for receivables with a total of ₱ 265 billion of funds that flowed in through various cash management solutions.

In 2017, CCM launched the new corporate internet banking platform, the RCBC Online Corporate, an online facility for cash management services, which aims to support growth targets for payments and for receivables.

Global Filipino Banking (GFB)

Global Filipino Banking, better known as RCBC TeleMoney, is the Bank's core remittance business. Through this segment, the Bank provides remittance services to the wide network of Overseas Filipinos, both land-based and sea-based, and their beneficiaries here in the Philippines.

RCBC TeleMoney is present across the world through its own subsidiary office in Hong Kong and through tie-ups with banks or exchange/money transfer business in the United States of America, Guam, in the Middle East Region with countries such as Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar and Oman. In addition, it has tie-ups in the Asia Pacific Region with countries such as Hong Kong, Japan, Malaysia, Brunei, Singapore and Australia and in Europe Region, specifically in Greece. RCBC TeleMoney provides a broad range of value-added services such as TeleCredit (credit to any Philippine bank account), TeleRemit (cash pick up from any branch of RCBC and RCBC Savings Bank, or from other payout partners), TelePay (bills payment) and TeleDoor2Door (cash delivery to the beneficiaries' doorstep).

The Bank has targeted its remittance operations as one of its key drivers of growth. RCBC TeleMoney has focused on marketing through its objective of revamping its brand name across retail and corporate clients in both traditional and digital channels. Also, it has concentrated in implementing marketing efforts such as instant gratifications and promotions to entice Overseas Filipinos to remit with TeleMoney. Moreover, the group has continuously strived to partner with local shipping and manning companies to extend assistance with their foreign exchange conversions and with their employees, the seafarers, for their payroll accounts. Aside from the local market, RCBC TeleMoney has also pursued tie-ups with international banks and money exchanges to expand its reach to Overseas Filipino customers. With these strategic plans altogether, RCBC TeleMoney is creating more pathways for Global Filipinos to connect to their loved ones back home.

Marketing

The Bank operates a separate product development and marketing division responsible for the overall marketing strategies, product conceptualization and management of deposit-related products and services.

The Bank focused on the promotion of cash management, deposit development, fee-based products and services and consumer lending in its 2015 marketing campaign. The Corporate Communications office handles the branding strategy and publicity campaigns of the Bank and makes use of an internal YGC advertising agency.

Operations

The Operations Group ("Operations") is responsible for managing the Bank's back-office processing functions. Operations is composed of eight divisions: the Branch Banking Services Division which handles customer information management, branch reconciliation and adjustments, and core banking system support; the Cash Management Services Division which covers cash management, check clearing and settlements; the Transactions Banking Services Division responsible for bills payment processing, payroll processing, ICARD support and emerging services; the Alternative Banking Services Division which conducts ATM management and electronic banking and contact center support; the Capital Markets Services Division which supports Treasury, and International Operations; the Lending and Trade Services Division which deals with credit and loans, trade finance and technical services; the Regional Operations Division which facilitates domestic operations; and the 24x7 Operations Division in charge of continuous operations.

Starting in 2010, Operations began changing how it handles the different processes it is responsible for. Together with the introduction of the Bank's information technology system, Lean 6 Sigma, these changes aim to deliver more savings to its operations and improve turn-around time of its services to customers.

Information Technology Shared Services Group

The Bank's Information Technology Shared Services Group ("ITSSG") is responsible for delivering IT services to RCBC and its subsidiaries such as RCBC Savings Bank, Bankard and RCBC's international operations. ITSSG was

established in 2008 to provide IT systems and infrastructure support at a lower operational cost than previously incurred by the individual member companies, while applying consistent policies, procedures and standards to strengthen IT governance across the RCBC Group. As of 31 March 2018, ITSSG had 253 employees.

The core objective of the Bank's IT programme is to use technology to transform present business and operating models to be more adaptive, agile and customer-centric, and to improve the Bank's service to its clients by offering internet banking and electronic payment services and using technology to analyze customer information and train the Bank's employees.

In 2010, the Bank cut over to the new Guava Treasury System. New features were launched in the Retail Internet Banking and Corporate Internet Banking systems to address the requirements of RCBC's growing customer base. New workflow systems were implemented in the Bank's backroom lending operations to improve the operating efficiencies and allow the processing of higher volumes of transactions. ITSSG tapped opportunities on emerging technologies, such as the launch of a Customer Campaign via cloud computing, to support the Bank's customer referral and cross-selling programs.

In 2011, Oracle Financials went live and new channels were enabled to reach more customers. The eTrust and Foreign Exchange portals were launched in the first semester while the Phone-A-Loan and Mobile Banking system for iOS phones and tablets were launched in the second semester. The iCard system servicing MyWallet customers was upgraded. A new Contact Center Ticketing System was implemented in July to service the queries of the growing customer base.

In May 2012, ITSSG successfully launched the new Finacle Core Banking System simultaneously in all branches and head office units of RCBC and its subsidiary, RCBC Savings Bank, with no disruption in services to its clients. The new system provided the foundation RCBC needed to create value-added services that will increase customer adoption of its existing products and position itself as the preferred bank of the future. RCBC became the first installation in the world of an enterprise-class open system (Finacle) running on a mainframe platform using Linux in System z and DB2 in z/OS for its database. The innovative use of technology and excellence in project execution earned international recognition for RCBC.

Improvements on existing systems were completed in 2013 such as the enhancement of the Telemoney Remittance system to enable real time interface and straight through processing, and revisions on Customer Analytics to improve cross-selling. The Credit Risk System, Corporate Risk Rating Model and various automated reconciliation and monitoring systems were also launched.

A new generation ATM switch solution was implemented in October 2014. This system has enhanced transaction processing capability and will allow the Bank to introduce card products that are tailor-fit for each customer segment. In 2014, the Bank partnered with Infosys for a Finacle Wealth Management solution that offered a front-to-back office modular solution, providing comprehensive coverage, scalability and seamless integration. The 360-degree view of the clients' assets and behavioral profiles allowed the Wealth Management Group to craft relevant, competitive and highly personalized advice for its customers.

RCBC launched Touch Q as part of the Bank's "Branch of the Future" initiative in 2015. Touch Q is a digitized queuing system, which facilitates the pre-staging and prioritization of transactions through kiosks, mobile and web applications integrated with the Bank's Core Banking System with the aim of providing an efficient platform for handing transactions while minimizing potential handling errors. Touch Q enables the Bank's customers to perform the following transactions: cash deposit, cheque deposit, cash withdrawal, cheque encashment, bills payment, fund transfer, account opening as well as other financial and non-financial transactions. Customers can also prepare their branch transactions in advance through the Touch Q Online Check-in (web portal or mobile app). Transactions prepared through the Touch Q Online Check-in are given priority queuing upon interfacing with the Touch Q machine at the Bank's branches. Other notable investments from the Bank's "Branch of the Future" initiative in 2015 include the acquisition of the Ambit Focus Asset and Liability Management and Fund Transfer Pricing modules to further strengthen risk management practices, and the implementation of the Bank's Operational Risk System and "myHRIS". The Bank's Operational Risk System was designed to capture, monitor and analyze risks arising from internal operations, processes, employees and systems, while "myHRIS" provided the Bank with a new web-based Human Capital Management system. Lastly, the Bank launched its Teammate Audit software to increase the efficiency and productivity of the Bank's entire internal audit process, including risk assessment, scheduling, planning, execution, review, report generation, trend analysis, audit committee reporting and storage.

In June 2015, the Bank also entered into a partnership with G-Cash in order to provide additional services to the Bank's clients through its fund transfer, mobile access to funds and prepaid mobile phone reloading facilities. G-Cash allows the Bank's clients who are also Globe G-Cash subscribers to transfer funds from an RCBC account to his/her Globe G-Cash account via RCBC Online Banking. The innovative use of technology and excellence in project

execution earned international recognition for the Bank as "Best Implementation of a Technology Solution" at the WealthBriefingAsia Singapore Awards in 2015.

In 2016, RCBC continued with its "Branch of the Future" initiative by rolling out additional Touch Q kiosks—100 for RCBC and 20 for RSB. Additionally, the Bank also launched ROC, a comprehensive Cash Management system that provided new products and services to the Bank's corporate clients. Moreover, RCBC has implemented Europay, MasterCard and Visa ("EMV"), a new card system designed to improve payment security, making it more difficult for fraudsters to successfully counterfeit cards. RCBC also implemented a suite of security products to significantly raise the level of protection for our users, systems, end-points and data. Lastly in 2016, the Bank partnered with Fidelity National Information Services, Inc. ("FIS"), to leverage FIS's expertise in providing ATM services to the Bank's clients and to enable the Bank to enrich its offering of card products and services.

In 2017, the Bank further enhanced the resiliency of its technology infrastructure through the virtualization of its data center infrastructure. The rationale for the virtualization includes, among others, to reduce physical servers in data centers through the conversion of more than 250 physical servers to virtual servers and to increase resiliency against hardware failures. The RCBC Online Corporate mobile app was made available in 2017, enabling clients to approve banking transactions securely on an android or iOS device.

Also in 2017, with cyber-security remaining a main concern for financial institutions worldwide, RCBC continued to enhance and strengthen its cyber-security posture and regulatory-related compliance with the launch of its dedicated Security Operation Center ("SOC"), a facility that operates 24 hours per day and seven days per week. The SOC monitors, manages, and remediates cyber-security attacks.

To comply with the industry-wide initiative from the BSP and Philippine Clearing House Corporation, in 2017 the Bank also implemented a "Check Image Clearing System" ("CICS"), an image-based check clearing system where check images and "Magnetic Ink Character Recognition" ("MICR") data are electronically captured by the Bank. This facility eliminates the need to move physical checks across branches and the clearing house, and, enables banks to immediately process check returns and provide early availability of funds to customers. Also, to further enhance the Bank's AML compliance, several AML-related initiatives across application systems were also implemented.

The Bank rolled out new savings account products (Flexi-Savings and Evergreen Deposit) in 2017 and added new features in its product offerings to support the Bank's focus on generating additional low-cost deposits and to retain customers and gain new ones, all while remaining compliant with AML regulations. To assist in growing the Consumer and SME Lending businesses, Retail Lending processes were also automated to include email alerts, SMS, and other reports. Moreover, an Enterprise Fraud Management System ("EFMS") was implemented, which provides the Bank with a real time transaction fraud detection software. All source systems provide their transaction data to the EFMS on a real time basis, and the EFMS is equipped with a facility wherein the Bank customize its own set of rules designed to alert and flag suspicious transactions.

Intellectual Property

The Bank has not registered any of its intellectual property rights in the Intellectual Property Office at the Department of Trade and Industry of the Philippines. However, the Bank believes that this is a common practice in the banking industry in the Philippines generally. The Bank has not been the subject of any disputes relating to its intellectual property rights.

Legal Proceedings

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

Global Steel Philippines

In October 2008, Global Steel Philippines ("SPV-AMC"), Inc. and Global Ispat Holdings ("SPVAMC"), Inc. (collectively, "Global Steel"), which purchased the Iligan Plant assets of the National Steel Corporation ("NSC Plant Assets") from the Liquidator (as defined in the Asset Purchase Agreement ("APA") dated 1 September 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 9 May 2012, the SIAC Arbitral Tribunal rendered a partial award in favor of Global Steel in the amounts of (a) USD 80.00 million, as and by way of lost opportunity to make profits and (b) ₱ 1,403.00 million, representing the value of the undelivered billet shop land measuring 3.41 hectares (the "Lost Land Claim"). On appeal, and on 31 July 2014, the Singapore High Court set aside the partial award. On 31 March 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court but held that the 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 ₱ 209,121,055.18 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 ₱ 485.50 million. 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 19 October 2016, the City of Iligan foreclosed on National Steel Corporation properties after issuing a Notice of Delinquency against National Steel Corporation, seeking to collect the taxes covering the period 1999 to 2016. In an order dated 4 April 2017, the Makati City Regional Trial Court (a) nullified the public auction of the NSC Plant Assets, among others, (b) enjoined any and all real property tax collection actions against the National Steel Corporation until the decision dated 7 October 2011, which held that the National Steel Corporation pre-closing taxes have been paid, is fully executed and National Steel Corporation's remaining tax liabilities are correctly computed. The Local Government Unit ("LGU") and the Iligan City Treasurer, among others, moved for reconsideration of this order. To date, this matter remains pending.

Verotel Merchant Services

In 2011, Verotel Merchant Services B.V. ("VMS"), a Dutch corporation, and Verotel International Industries, Inc. ("VII"), a Philippine corporation civilly sued the Bank, Bankard, 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 USD 1.50 million, which the defendants allegedly misappropriated. VMS is an internet merchant providing online adult entertainment and online gambling, in addition to the sale of pharmaceuticals over the internet. 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 11 July 2016. On 2 October 2017, the Bank/Bankard filed their Revised Opening Brief on their appeal of the verdict with the California Court of Appeals. On 28 March 2018, the Bank/Bankard was advised of the filing of VMS's Combined Respondents' Brief and the Cross-Appellants' Opening Brief.

RCBC Securities

In December 2011, RCBC Securities ("RSEC") initiated the filing of a criminal case for falsification against its former agent, Mary Grace V. Valbuena ("Valbuena"), who carried out certain questionable transactions with her own personal clients. Since then, RSEC has filed additional criminal and civil cases, including charges of violations of Batas Pambasa Blg. 22 ("BP 22"), against the aforesaid former agent. On 17 November 2016, the Metropolitan Trial Court of Makati City, Branch 66, convicted Valbuena of the crime of BP 22. Valbuena proposed to pay RSEC ₱ 30.00 million, payable in five years, in settlement of all the claims against her, which RSEC refused. Valbuena's appeal is now submitted for resolution, without prejudice to any settlement between the parties.

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

In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio Holdings, Inc. ("Cognatio") likewise filed a complaint against RSEC with the CMIC, even as Cognatio's earlier complaint dated 30 December 2013 against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena, is pending with the Enforcement and Investor Protection Department of the Securities and Exchange Commission ("EIPD-SEC") ("SEC Cognatio Case"). In its decision letter dated 4 December 2014, the CMIC dismissed the complaint on the ground of prescription and res judicata. Consequently, Palanca/Cognatio respectively appealed the case to the SEC en banc, which granted the appeals of Palanca/Cognatio and reversed the CMIC's decision. In turn, RSEC appealed the SEC en banc's reversal of the CMIC decision to the Court of Appeals. On 27 October 2017, the

Court of Appeals granted RSEC's Petition for Review and reinstated the CMIC decision, ruling that Palanca/Cognatio committed willful and deliberate forum shopping. Palanca/Cognatio's Motion for Reconsideration, which RSEC has opposed via is Comment/Opposition dated 22 February 2018, is currently pending resolution. The SEC Cognatio Case remains pending with the EIPD-SEC.

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

Poverty Eradication and Alleviation Certificates ("PEACe") Bonds

In October 2011, the Bank before the Court of Tax Appeals questioning the 20.00% final withholding tax on PEACe Bonds by the Bureau of Internal Revenue ("BIR"). The Bank subsequently withdrew its petition and joined various banks in their petition before the Philippine Supreme Court on the same matter. Notwithstanding the pendency of the case and the issuance of a Temporary Restraining Order by the Philippine Supreme Court, the Bureau of Treasury withheld ₱ 199.00 million in October 2011 from the Bank on the interest on its PEACe bonds holdings. The amount was recognized as part of Loans and Receivables account in the statements of financial position. On 13 January 2015, the Philippine Supreme Court nullified the 2011 BIR Rulings classifying all bonds as deposit substitutes and ordered the Bureau of Treasury to return the 20.00% final withholding tax it withheld on the PEACe Bonds on 18 October 2011. On 16 March 2015, the Bank and RCBC Capital filed a Motion for Clarification and/or Partial Reconsideration, seeking clarification to exclude from the definition of "deposit substitutes" the PEACe Bonds since there was only one lender at the primary market, and subsequent sales in the secondary market pertaining to a sale or assignment of credit, which is not subject to withholding tax. The Bank and RCBC Capital also sought partial reconsideration from the ruling that should the PEACe Bonds be considered as deposit substitutes, the BIR should collect the unpaid final withholding tax directly from RCBC Capital/Code Non-Governmental Organization ("NGO"), or any lender or investor, as withholding agents, since there was no interest earned and collection of the withholding tax, if at all, has already prescribed.

In a Resolution dated 5 October 2016, the Supreme Court of the Philippines partially granted the Bank and RCBC Capital's Motion for Clarification and/or Partial Reconsideration, stating that (a) to determine whether the securities newly issued and sold by the Bureau of Treasury should be treated as "deposit substitutes", the phrase "at any one time" in relation to "20 or more lenders" should be reckoned at the time of their original issuance, (b) this interpretation, at any rate, cannot be applied retroactively since this would prejudice the Bank and RCBC Capital which relied in good faith on the rulings/opinions of the BIR that the transaction in issue is exempted from any final withholding tax, and (c) such being the case, the PEACe Bonds cannot be treated as deposit substitutes.

On 11 April 2017, the Bank received a copy of the Entry of Judgment stating, among others, that the Decision date 13 January 2015 and the Resolution dated 16 August 2016, which partially granted the Motion for Clarification and/or Partial Reconsideration filed by the Bank and RCBC Capital, became final and executory on 20 October 2016. The Bureau of Treasury has settled ₱ 196,930,961.35 of the Bank's claim. The balance of ₱ 1,844,591.47 million, which was the subject of a deed of assignment in favor of the Bank (by a rural bank which has since been placed under liquidation), is the subject of discussion with the Philippine Deposit Insurance Corporation ("PDIC") and Bureau of Treasury. In a letter from the PDIC to the Bureau of the Treasury dated 7 February 2018, the PDIC approved the transfer of the balance to RCBC.

Applicability of RR 4-2011

On 15 March 2011, the Bureau of Internal Revenue issued Revenue Regulations No. 4-2011 ("RR 4-2011") which prescribed that for income tax reporting purposes, banks and other financial institutions must (a) report costs and expenses either under Regular Banking Unit ("RBU") or FCDU/Expanded FCDU ("EFCDU") or Offshore Banking Unit ("OBU") if specifically identified as such; or (b) allocate such cost and expenses, which cannot be specifically identified, based on percentage share of gross income earnings of a unit. The BIR, however, issued assessment notices to banks and other financial institutions for deficiency income tax for alleged non-intra-unit allocation of costs and expenses to exempt income and income subjected to final tax within RBU and within FCDU.

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

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

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

Alleged Unauthorized Transfer of Funds — Bank of Bangladesh

In February 2016, there was an alleged unauthorized transfer of funds from the Bank of Bangladesh to four accounts in the Bank, which were eventually transferred to various accounts outside of the Bank. In August 2016, the Monetary Board approved the imposition of supervisory action on the Bank to pay the amount of ₱ 1.00 billion in relation to the completed special examination. There may be other cases arising from these events. The Bank has fully recognized the BSP's ₱ 1.00 billion fine as part of miscellaneous expenses in its 2016 Consolidated Statements of Profit or Loss, and it has paid this penalty in full ahead of the August 2017 deadline set by the BSP. The Bank's payment of the penalty did not affect its ability to perform its existing obligations or unduly hamper its operations.

Litigation involving the Bank and its employees

As of 18 November 2016, the AMLC had filed criminal complaints with the Philippine Department of Justice against current and former employees of the Bank in relation to the BOB Incident. The AMLC alleged that Maia Santos-Deguito, Raul Victor B. Tan, Ismael S. Reyes, Brigitte R. Capiña, Nestor O. Pineda, Romualdo S. Agarrado and Angela Ruth S. Torres violated Section 4(f) of R.A. No. 9160, as amended ("AMLA"), in connection with the BOB Incident. The AMLC alleged that each of the named persons performed or failed to perform an act, which facilitated the crime of money laundering, particularly the remittance and eventual withdrawal of USD 81.00 million from certain accounts maintained at the Bank. An internal investigation by the Bank revealed that Maia Santos-Deguito and Angela Ruth S. Torres, together with other individuals, worked together in carrying out the alleged irregular activities in violation of the established bank policies, procedures, rules and regulations. Moreover, the Bank's internal investigation found that Raul Victor B. Tan, Ismael S. Reyes, Nestor O. Pineda, and Romualdo S. Agarrado, and Ms. Brigitte R. Capiña were negligent (in varying degrees), but there were no findings that they colluded with the alleged perpetrators, or that they had knowledge that the remittances/funds were the fruits of an unlawful activity.

On 27 March 2017, current Bank employees Ismael S. Reyes, Brigitte R. Capiña and Romualdo S. Agarrado and former Bank employees Raul Victor B. Tan and Nestor O. Pineda filed affidavits contesting, among other things, their culpability and the existence of several required elements to the charges alleged by the AMLC. Between May and July 2017, the AMLC and the aforementioned individuals filed various affidavits and manifestations in connection with the charges. On 5 March 2018, the Philippine Department of Justice issued a resolution finding probable cause against Ismael S. Reyes, Brigitte R. Capiña, Raul Victor B. Tan and Romualdo S. Agarrado, Nestor O. Pineda and Angela Ruth S. Torres. The aforementioned parties submitted a motion for reconsideration regarding the Philippine Department of Justice's finding, and the matter is currently pending.

On 8 March 2016, William S. Go, an existing client of the Bank in another Business Center, and the Bank, filed criminal charges against (a) Maia Santos-Deguito, the former Branch Manager of the Makati Jupiter Business Center, and (b) Angela Ruth S. Torres, the former Senior Customer Service Officer of the Makati Jupiter Business Center, with the Office of the City Prosecutor of the Makati City ("OCP-Makati"). The criminal complaints alleged that the two former employees: (a) falsified bank documents in order to open fictitious U.S. Dollar and Peso denominated accounts in the name of William S. Go DBA Centurytex Trading, which were used in the transfer/conversion of USD 81.00 million subject of the BOB Incident, and (b) Angela Ruth S. Torres committed perjury when she executed the affidavit identifying William S. Go as the person who allegedly received the ₱ 20.00 million withdrawn from his

fictitious Peso account on 5 February 2016. The OCP-Makati found probable cause to charge Maia Santos-Deguito with several counts of falsification. While the OCP-Makati dismissed the charges of falsification against Angela Ruth S. Torres, it found probable cause to charge her for perjury. The criminal cases against Maia Santos-Deguito and Angela Ruth Torres are currently pending before the Makati Metropolitan Trial Court. The Bank has several other ongoing criminal cases or petitions for review currently pending in relation to actions that it has initiated against former Bank employees in relation to the BOB Incident.

Regulatory Actions Involving the Bank

In August 2016, a special examination by the BSP as a result of the BOB Incident concluded that the Bank had conducted business in an unsafe or unsound manner by operating with grossly inadequate Money Laundering and Terrorist Financing Prevention Risk Management and Control Framework. The Monetary Board of the BSP approved the imposition of supervisory action on the Bank to pay a monetary penalty in the amount of ₱1.00 billion in relation to the completed special examination. Additionally, the Monetary Board of the BSP imposed a number of temporary restrictions on the Bank's activities and permanent requirements designed to strengthen the Bank's corporate governance and improve the Bank's prompt corrective action framework. Temporary restrictions imposed on the Bank by the BSP include a stay on the approval of any new branch license requests, the prohibition against expanding its Bank's money service businesses through new relationships, and a prohibition against any new wire transfer or remittance-related products and services until further notice by the BSP. The permanent and ongoing requirements imposed by the BSP include, among other things, (i) reconstituting the Bank's Board, Audit Committee, Corporate Governance Committee and Risk Oversight Committee and organizational structure; (ii) implementing plans, processes, and procedures designed to improve the Bank's AML and Terrorist Financing prevention framework and controls, (iii) ensuring the effective implementation of the Bank's money laundering prevention program and the taking of appropriate actions to correct conditions resulting from unsafe or unsound banking practices.

In the future, there may be other investigations, regulatory proceedings or litigation arising from the BOB Incident. For example, on 7 February 2018, news sources reported that a deputy governor to the Bank of Bangladesh announced that the central bank intends to file a lawsuit in New York in relation to the BOB Incident before May 2018. Through the date of this Offering Circular, the Bank has not received any notice of any suit being brought against it in relation to the BOB Incident in the United States.

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.

Involvement of Officers and Directors in Certain Legal Proceedings

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

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

To the knowledge and/or information of the Bank, none of the following events has occurred with respect to the nominees for election as Directors of the Bank, its present members of the Board of Directors, its Executive Officers, underwriters, or control persons during the last five years:

a. Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
b. Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
c. Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
d. Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foregn body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

Capital Expenditure

The Bank's planned capital expenditures in 2018 are ₱ 1.50 billion, primarily aimed at upgrading and expanding the Bank's existing technology, software and hardware.

The Bank's capital expenditures for the years ended 2015, 2016 and 2017 were ₱ 2.31 billion, ₱ 3.08 billion, ₱ 1.83 billion, respectively. The Bank's primary capital expenditures during 2015, 2016, and 2017 were mainly invested in furniture, fixtures, and equipment.

Subsidiaries

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking related companies or "allied undertakings". Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies and financial institutions catering to SMEs.

A publicly-listed universal or commercial bank in the Philippines may own 100% of the voting stock of only one other commercial bank. Such universal or commercial bank may only have ownership in additional commercial banks as a minority shareholder. A universal bank may also own up to 100% of the voting stock of thrift banks and rural banks, and generally up to 100% of other financial and non-financial allied undertakings. Prior Monetary Board approval is required for investments in allied and non-allied undertakings.

The total investments in equities of allied and non-allied enterprises shall not exceed 50% of the net worth of the Bank, subject to the further requirement that the equity investment in one enterprise shall not exceed 25% of the net worth of the Bank.

The Bank's subsidiaries are as follows:

RCBC Savings Bank, Inc.

RCBC Savings Bank Inc. ("RSB"), a wholly-owned subsidiary of the Bank, was established in 1996 as the Bank's consumer banking arm. RSB provides deposit products, real estate loans, auto loans and personal loans. As of 31 December 2016, RSB has 145 business centres and five extension offices nationwide. In financial year 2015, RSB's net income was ₱1.3 billion. For the three months ended 31 March 2017 RSB's net income amounted to ₱ 759.6 million as compared to net income of ₱ 601.2 million for the same period in 2016.

RCBC Capital Corporation

RCBC Capital Corporation, a 99.96% owned subsidiary, was established in 1974. RCBC Capital Corporation is the investment banking subsidiary of RCBC. It offers a complete range of investment banking and financial consultancy services which include (i) the underwriting of equity, quasi-equity and debt securities on a firm or best efforts basis for private placement or public distribution; (ii) the syndication of foreign currency or peso loans; and (iii) financial advisory services. In the financial year 2015, RCBC Capital's net income was ₱ 94.4 million. For the three months ended 31 March 2017 RCBC Capital's net income amounted to ₱ 358.1 million as compared to net income of ₱ 133.5 million[A] for the same period in 2016.

RCBC Securities, Inc. (RCBC Securities)

RCBC Securities, a wholly-owned subsidiary of RCBC Capital, is engaged in the electronic and traditional trading of listed securities and in providing corporate and market research. In the financial year 2016, RCBC Securities' net income was ₱ 26.6 million. For the three months ended 31 March 2017 RCBC Securities net income amounted to ₱ 18.1 million as compared to net income of ₱ 21.6 million for the same period in 2016.

RCBC Bankard Services Corporation (formerly Bankard, Inc.)

RCBC Bankard Services Corporation ("RBSC"), a wholly owned subsidiary of RCBC Capital engaged in providing services to the credit card business of the bank. Until December 2006, the Bank conducted its credit card operations through Bankard. Beginning in 2007, Bankard has serviced the credit card business and operations of the Bank.

The Board of Directors, in its special meeting held on 18 October 2013, approved the sale to Philippine Business Bank Trust and Investment Center on behalf of various clients the Bank's and its subsidiary RCBC Capital's 90% stake in Bankard, Inc.

As part of the condition for the sale, all existing credit card operations of Bankard, Inc. was assigned and absorbed indirectly by RCBC, thru RCBC Capital. RCBC continues to operate the current credit card business of Bankard, Inc. RBSC provides credit card services.

For the three months ended 31 March 2017 RBSC's net income amounted to ₱55.3 million. *See "— Consumer Banking — Credit Card Operations"*.

RCBC Forex Brokers Corporation

RCBC Forex Brokers Corporation ("RCBC Forex"), a wholly-owned subsidiary of the Bank, was incorporated in 1998. RCBC Forex is engaged in dealing and brokering currencies in foreign exchange contracts with local and international clients. In financial years 2016, RCBC Forex's net income was ₱ 70.9 million. For the three months ended 31 March 2017, RCBC Forex's net income was ₱ 34.7 million as compared to net income of ₱ 56.1 million for the same period in 2016.

RCBC International Finance Limited (RCBC IFL)

RCBC IFL, a 100% owned subsidiary of the Bank, was established in 1979 and is the Bank's overseas subsidiary in Hong Kong. RCBC IFL is primarily engaged in the remittance business. In financial years 2015, RCBC IFL's net income was ₱ 3.7 million. For the three months ended 31 March 2017 RCBC IFL's net income amounted to ₱ 1.6 million compared to a net income of ₱ 2.5 million for the same period in 2016. RCBC Investment Ltd ("RCBC IL"), 100% owned subsidiary of RCBC IFL, is a Hong Kong company established in 1990. RCBC IFL and RCBC IL are both primarily engaged in the remittance business.

Merchants Savings and Loan Association Inc.

Merchant Savings and Loan Association Inc., whose trade name is Rizal Microbank ("Rizal Microbank"), a 98.03% owned subsidiary was acquired on 15 May 2008 to engage in micro-financing and development of small businesses. Rizal Microbank has 15 microfinance lending branches with operations in Southern Luzon and Mindanao. Its head office and head office branch was officially moved from Makati City to Davao City in April 2011. In financial years 2016, RCBC RMB's net loss was ₱ 64.8 million. For the three months ended 31 March 2017, Rizal Microbank had a net loss of ₱ 7.2 million a as compared to net loss of ₱ 49.7 million for the same period in 2016.

RCBC-JPL Holding Company, Inc. (formerly Pres. Jose P. Laurel Rural Bank, Inc.)

RCBC JPL Holding Company, Inc., a 99.39% owned subsidiary of the Bank formed in 2012, is primarily engaged in the disposition of the assets of its predecessor, Pres. Jose P. Laurel Rural Bank, Inc. which the Bank acquired in February 1999. In financial years 2016, RCBC-JPL's net income was ₱ 2.3 million. For the three months ended 31 March 2017, JPL's net loss was ₱ 2.9 million compared to a net loss of ₱ 0.2 million for the same period in 2016.

Niyog Property Holdings, Inc. (NPHI)

NPHI, a wholly owned subsidiary of the Bank (48.11% owned by the Bank and 51.89% indirectly owned through RCBC Savings Bank), was incorporated on 13 September 2005 to purchase, subscribe for or otherwise dispose of real and personal property of every kind and description but not as an investment company. On 25 May 2009, RCBC approved the reclassification of its investment in NPHI from Investment Property account to Investments in Subsidiaries and Associates account in accordance with BSP Circular No. 520. This resulted in the consolidation of NPHI's assets, liabilities and net income in RCBC's financial statements as of and for year ended 31 December 2009. In financial years 2016, RCBC NPHI's net income was ₱ 88.7 million. For the three months ended 31 March 2017, NPHI's net income was ₱ 9.7 million compared to a net income of ₱ 85.1 million for the same period in 2016.

RCBC Leasing and Finance Corporation (RCBC LFC)

RCBC LFC, a 97.8% owned subsidiary of the Bank, was acquired by the Bank on 28 March 2012 for a total consideration of ₱ 686.2 million. RCBC LFC is a non-bank financial institution with a quasi-banking licence granted by the BSP, serving corporate and commercial clients and consumers in the financing industry and its wholly-owned subsidiary, RCBC Rental Corp., is in the business of renting and leasing equipment and machinery. For the year ended 30 December 2016, RCBC LFC registered a net income of ₱ 34.0 million. For the three months ended 31 March 2017, RCBC LFC's net income was ₱ 53.8 million compared to a net income of ₱ 26.8 million for the same period in 2016.

Additionally, as a universal bank, RCBC has equity investments in various industries which are vital to the country's economic growth and which also serve the purpose of diversifying the Bank's sources of income. Among these are Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Luisita Industrial Park Corporation, and Pilipinas Shell Petroleum Corporation.

RISK MANAGEMENT AND COMPLIANCE

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

A committee system is a fundamental part of the Bank's process of managing risk. The three committees of the Board of Directors relevant in this context are:

- the Executive Committee ("EXCOM"), which meets weekly, approves credit policies and decides on large counter-party credit facilities and limits. Next to the Board of Directors, the EXCOM is the highest approving body in the Bank and has the authority to make decisions on such matters as the Board of Directors may entrust to it for action between board meetings;

- the Risk Oversight Committee ("ROC"), which meets monthly, carries out the Board of Directors' oversight responsibility for group risk management, covering credit, market and operational risks under Pillar 1 of the Basel II framework, as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process. Risk limits are reviewed and approved by the ROC; and

- the Audit Committee, which meets monthly, reviews the results of internal audit examinations and recommends remedial actions to the Board of Directors as appropriate.

Two senior management committees also provide a regular forum, at a lower-level, to take up risk issues:

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

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

The Bank has established a Corporate Risk Management Services ("CRISMS") Group, headed by the Chief Risk Officer, to ensure Bank-wide and consistent implementation of the risk identification, measurement and/or assessment, mitigation and monitoring objectives are pursued via practices commensurate with risk profiles. CRISMS is independent of all risk-taking business segments and reports directly to the ROC. It participates in the Credit and Collection Committee (through the head of credit risk management segment) and in ALCO meetings.

Liquidity Risk Management

Liquidity risk is the risk that there are insufficient funds available to adequately meet all maturing liabilities, including demand deposits and off-balance sheet commitments, due to: (a) the inability to liquidate assets or obtain adequate funding (funding liquidity risk); and (b) the inability to easily unwind or offset specific exposures without significantly lowering market prices because of inadequate market depth or market disruptions (market liquidity risk).

The Bank's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet credit demands of its customers and to enable deposits to be repaid on maturity. The main sources of the Bank's funding are capital, core deposits from retail and commercial clients and wholesale deposits. The Bank also maintains a portfolio of readily marketable securities to further strengthen its liquidity position. The Bank's liquidity policies and procedures are set out in its Funding and Liquidity Plan.

As of 31 March 2018, 28.26% of the Bank's total portfolio was represented by loans with remaining maturities of one year or less. Of the Bank's ₱ 88.68 billion total consolidated portfolio of investment securities as of 31 March 2018, ₱ 11.216 billion, or 12.65%, was invested in investment securities with remaining maturities of one year or less. The Bank's trading and investment securities account includes securities issued by sovereign issuers, primarily Government treasury bills, fixed rate treasury notes and floating rate treasury notes, and foreign currency denominated bonds issued by the Government.

Other resources include amounts due from the BSP, amounts due from other banks and loans arising from repurchase agreements, which accounted for 9.75%, 3.78% and 1.45%, respectively, of the Bank's total assets as of 31 March 2018. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The primary responsibility of managing liquidity risk lies with the ALCO, which disseminates its liquidity strategy across all business units within the Bank that conduct activities that impact liquidity. ALCO's primary responsibilities include:

- ensuring that the Bank and its legal vehicles maintain adequate liquidity, sufficient capital and the appropriate funding to meet all business requirements and comply with all regulatory requirements;
- building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities (the structural gap);
- managing the balance sheet and ensuring that the strategies are in accordance with adequate liquidity, capital and diversified funding;
- determining asset/liability pricing consistent with the strategies for the balance sheet; diversifying the funding of each legal vehicle of the Bank by source, maturity, instrument and currency;
- implementing policies of the Board of Directors on all issues that affect capital, funding or liquidity; and
- informing the Board of Directors regularly of the liquidity situation of the Bank and informing the Board of Directors immediately if there are any material changes in the Bank's current or prospective liquidity position.

ALCO measures liquidity risk by assessing all of its cash inflows against its outflows to identify the potential for any net shortfalls going forward, including funding requirements for off-balance-sheet commitments. The Bank's core measure of liquidity, the Maximum Cumulative Outflow ("MCO"), is defined as the amount of prospective funding that the Bank will require at pre-specified future dates in normal operating requirements and measures the liquidity gap between maturing liabilities and assets. The MCO Limit is proposed by the Treasurer and CRISMS, reviewed by the Risk Management Committee and approved by the Board of Directors.

To ensure that the Bank has sufficient liquidity at all times, the Bank's Treasurer and CRISMS formulates a contingency plan using extreme scenarios of adverse liquidity and evaluates the Bank's ability to withstand these prolonged scenarios. The contingency plan focuses on the Bank's strategy for coordinating managerial action during a crisis and includes procedures for making up cash flow shortfalls in adverse situations. The plan details the amounts of funds (such as unused credit facilities) the Bank has available to it and the scenarios under which it could use them.

The following table set forth the asset/liability gap position for the Bank's operations on a consolidated basis as of March 31, 2018:

	As of March 31, 2018 (P in millions, except percentages)					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-Maturity**	**Total**
Resources						
Cash (COCI)	44,856	1,016	3,089	110	52,473	101,544
Investments — net	10,537	679	24,259	46,309	6,895	88,679
Loans and receivables — net	40,494	64,630	111,742	80,991	74,125	371,981
Other resources — net	6,878	611	469	63	15,486	23,508
Total Resources	102,765	66,937	139,559	127,473	148,979	585,712
Liabilities						
Deposit Liabilities	58,261	10,463	18,093	1	307,796	394,614
Bills Payable	3,372	38,590	6,372	1,535	596	50,464
Bonds Payable	—	—	44,930	—	—	44,930
Subordinated Debt	—	—	9,973	—	—	9,973
Other Liabilities	10,342	110	—	0	7,321	17,773
Total Liabilities	71,975	49,163	79,368	1,536	315,712	517,754
Equity	15	—	—	—	67,943	67,958
Total Liabilities and equity	71,990	49,163	79,368	1,536	383,655	585,712
On-book gap	30,775	17,774	60,191	125,937	(234,677)	—
Cumulative on-book gap	30,775	48,549	108,740	234,677	—	—
Contingent Resources	18,508	—	—	—	—	18,508
Contingent Liabilities	18,511	—	—	—	0	18,512
Off-book gap	(4)	—	—	—	(0)	(4)
Cumulative off-book gap	(4)	—	—	—	(0)	(4)
Periodic gap	30,771	17,774	60,191	125,937	(234,677)	(4)
Cumulative total gap	30,771	48,545	108,736	234,673	(4)	—

Interest Rate Risk Management

The Bank follows a policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank's risk measurement system incorporates different risk factors for different categories of instruments (e.g. fixed income or money market) within each currency where the Bank holds interest rate sensitive positions.

ALCO meets at least weekly to set rates for various asset and liability and trading products. In pricing interest rates, foreign exchange and fee based products, ALCO considers funding costs, market conditions, transaction volume, competitor's rates, among others, when pricing interest rates, foreign exchange and fee based products.

A majority of the Bank's total loan portfolio is on a floating rate based on an internal cost of funds. The spread varies for various types of loans and credit quality. Loan rates and the bulk of the deposit liabilities which are in special savings account are reset every 30 to 90 days. Hence, exposure to interest rate fluctuations is significantly reduced. No interest is paid on nearly all current accounts while regular savings accounts earn a fixed rate of 0.5% per annum.

The Bank employs a "gap analysis" to measure the interest rate sensitivity of its assets and liabilities. The asset/liability gap analysis measures, for any given period, any mismatch between the amounts of interest earning assets and interest-bearing liabilities which would re-price, during that period. If there is a positive gap, there is asset sensitivity, which generally means that an increase in the interest rates would have a positive effect on the Bank's net interest income. If there is a negative gap, this generally means that an increase in the interest rates would have a negative effect on the Bank's net interest income.

Credit Risk Management

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

The Credit Management Group ("CMG") assists senior management: (a) to develop credit policies; (b) to establish risk concentration limits accepted at the level of the single borrower, related-borrower group, industry segments, and sovereign jurisdiction; and, (c) to continuously monitor the actual credit risk portfolio from the perspective of those limits and other risk management objectives. In performing these functions, CMG works hand-in-hand with the business units and with the Corporate Planning Group.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMS of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and (d) borrower credit analysis is performed at origination and at least annually thereafter.

The Bank primarily uses an internal credit risk rating system ("ICRRS") developed by Standard & Poor's to determine creditworthiness. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments. Default probabilities likewise map to Standard & Poor's "PD" scale. Non-current accounts that are rated below CCC are classified based on the characteristics of classified loans per the BSP Manual of Regulations for Banks, i.e., Loans Especially Mentioned ("LEMs"), Substandard, Doubtful, or Loss.

Impairment provisions are recognized for losses that have been incurred at the end of the reporting period. The Bank subjects all loans and receivables with a principal balance of at least ₱ 15 million, and exposures rated BB+ to lower than CCC to individual impairment testing.

Significant changes in the economy, or in particular industry segments that represent a concentration in the Bank's

portfolio could result in losses that are different from those provided for at the end of each reporting period. Management, therefore, carefully monitors the changes and adjusts its exposure to such credit risk, as necessary.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Parent Bank uses its internal credit risk rating system ("ICRRS") to determine any evidence of impairment. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings below CCC demonstrating a high probability of counterparty's payment default on financial commitments. Non-current accounts that are rated below CCC are classified based on the characteristics of classified loans per BSP Manual of Regulations for Banks, i.e., Substandard, Doubtful or Loss.

Only impaired accounts with significant amount are subject to specific impairment test. Impaired accounts refer to those accounts which were rated BB+ to lower than CCC and accounts rated as Substandard, Doubtful and Loss. Significant amount is at least ₱ 0.5 for sales contract receivables and ₱ 15 for all other loan and receivable accounts.

Credit Risk Assessment

In the process of applying the Parent Bank's ICRRS in determining indications of impairment on individually significant items of loans and receivables, the Parent Bank analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC*	Currently vulnerable and dependent on favorable business, financial and economic conditions to meet financial commitments
Substandard	Loans past due for over 90 days
Doubtful	Past due clean loans previously classified as Substandard without at least 20% repayment during the succeeding 12 months
Loss	Loans considered absolutely uncollectible

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

The foregoing ICRRS was established by the Bank during the first quarter of 2013 in congruent and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual debt issue which is still performing or current in status. The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity/borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time. Previously, ICRRS implemented by the Parent Bank is based on BSP/Bankers' Association of the Philippines model which classifies the accounts into the following: 1 - Excellent, 2 - Strong, 3 - Good, 4 - Satisfactory, 5 - Acceptable, 6 - Watchlist, 7 - Special Mention, 8 - Substandard, 9 - Doubtful and 10 - Loss.

As part of the migration process, the old rating scale was mapped with S&P's rating scale as follows:

Rating Scale	
S&P Model	ICCRS
AAA	1
AA+	1
AA	1
AA-	1
A+	2
A	2
A-	2
BBB+	3
BBB	3
BBB-	3
BB+	4
BB	4
BB-	5
B+	5
B	6
B-	6
CCC+ and below	7

The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity/borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time.

Credit Approval Process

The Bank has three Credit Committees for loans, two under CBG (one for each of Corporate Accounts and SMEs) and one under the Treasury Group. The Credit Committees screen and evaluate credit proposals originating from lending units before these are presented to the approving bodies and are in turn served by support units which monitor and review the Bank's credit exposures. The lending units evaluate the borrower and the purpose of the loan and negotiate the terms of the loan with the borrower. At the post-approval stage, lending officers conduct regular client calls in order to monitor the account's performance. Borrowers are required to submit on a regular basis their interim and audited financial statements to monitor the borrowers' financial viability. Credit reviews on borrowers are also conducted regularly to assess the creditworthiness of accounts and their compliance with the Bank's policies and procedures. Movements in the total loan portfolio and exposures to various industries are also regularly monitored.

Credit Approval Authority

The authority to extend credit or commit the Bank to extend credit rests on the Board of Directors, which has delegated its authority, subject to certain approval limits, to certain designated credit authorities. All substantial transactions are subject to review and approval by the Executive Committee. In addition, a clear separation of duties exists between the officers recommending credit-related transactions and those who authorize them.

For transactions involving the Bank's DOSRI, approval by the Board of Directors is required for credit/other

accommodations regardless of the amounts involved. For non-DOSRI, the Bank has a hierarchy of delegated approving authority based on the amount of the credit facility involved, security arrangement or collateral position, internal credit risk rating, and/or account status. The aggregate amount of the credit/other accommodations (i.e., net of facilities secured by cash collateral) will determine the appropriate credit committee or authority.

OFW Remittances

Different approval authority levels and limits apply to the establishment of lines for releasing remittance funds to TeleMoney couriers, depending on the type of collateral offered.

Consumer Loans

The approval authority levels and limits differ among the different consumer loan products under RSB. Approval authority of Section Heads and all other lower officers pertain only to the specific loan products assigned. Approval limits range from a minimum of ₱0.05 million (for personal loans) to ₱5.0 million, with approving authorities ranging from the Credit Evaluation Officer up to the President. For amounts of ₱10.0 million and above, approval is elevated to the bank's Credit and Collection Committee and the Executive Committee. Approvals should conform to the credit policies set forth for the respective product line.

Credit Monitoring and Review Process

The Bank's credit review function is independent of the credit granting process and reports directly to the Board of Directors. It is the Bank's policy that credit performance be systematically monitored by staff other than the officer who initially reviewed the transaction. The credit review process also involves conducting periodic internal evaluations of credit risk processes to determine that credit activities are in compliance with the Bank's credit policies and procedures, credits are authorized within the guidelines established by the Bank's Board of Directors and the quality and value of individual credits are being accurately reported to senior management.

The Bank performs an Account Profitability Analysis ("APA") on borrowers when loans are originated and renewed or more frequently for important relationships. The methods of profitability analysis used in the APAs include return on funds employed, which intends to measure returns on risk assets taking into consideration the capital charge of the risk asset.

As part of its loan portfolio management, the Bank closely monitors past due accounts and their developments. On a monthly basis, the Loan Portfolio Monitoring Section prepares an Aging of Past Due report, which contains the principal past dues outstanding on a per account basis, the aging of the past due and the latest status of the account. On a weekly basis, newly booked past due accounts and potential past due accounts are presented to the Bank's Executive Committee for proactive management of the account. Unfavorable information and developments on a borrower or business environment are immediately processed for the purpose of instituting early remedial measures and renewed relationship strategies.

The Bank policies provide for stress testing to determine the potential for extreme conditions to affect both individual credits and the sectors of the credit portfolios. The three areas of focus for stress testing are: (a) economic or industry down-turns; (b) market-risk events; and (c) liquidity conditions. Stress-test analysis also includes contingency plans regarding the actions management may take given certain scenarios, such as hedging against outcome or reducing the size of the portfolio. Credit Risk Officers and Risk Managers document and report to the Board of Directors the output of the tests.

Market Risk Management

The Bank considers market risk as risk resulting from adverse movements in the level or volatility of market rates or prices which will affect the Bank's financial condition. The primary determinant of market risk is the volatility of the relevant market for a business line. The market risks of the bank are: (a) foreign exchange rates; (b) interest rates; and (c) equity prices.

To manage market risk inherent in the Bank's portfolio, the Bank employs a process of identifying, analysing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

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

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

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

  - The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
  - VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.
  - The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.
  - VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.
  - In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.
  - VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

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

- **Capital-at-Risk** ("CaR") – BSP Circular No. 544 refers to the estimation of the effect of interest rate changes as not only with respect to earnings, but also on the Bank's economic value. The estimate therefore must consider the fair valuation effect of rate changes on non-trading positions. These include both those positions with fair value changes against profit or loss, as well as those with fair value changes booked directly against capital funds (e.g., available-for-sale securities ("AFS")); but exclude those whose fair value changes are considered substantially offset – in an economic, if not accounting, sense – by fair value changes of another statement of financial position item. Adding this to the EaR determined using the procedure described above provides a measure of capital subject to interest rate risk. The Bank sets its CaR limit as a percentage of the capital funds in the statement of financial position.

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

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

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

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

The Bank's stress testing techniques include:

- **Simple Sensitivity Tests** – determine the impact on income of movements of one or more market risk factors using set percentage changes;

- **Scenario Analysis** – describes scenarios (based on historical or hypothetical scenarios) that the Bank's risk managers deem may happen in the foreseeable future and the consequences thereof; and

- **Maximum Loss Approach** – uses a combination of events that risk managers believe would be most damaging to the Bank's portfolio.

Foreign Currency Risk Management

The BSP has numerous regulations related to foreign currency management. The Bank complies with all of these, including limits on foreign currency exposures, liquidity reserves and types of currencies allowed for trading.

The Bank's risk measurement system incorporates risk factors for each different foreign currency in which the Bank's positions are determined. Foreign exchange positions are generally classified as trading positions and are marked-to-market at least daily. Foreign exchange forwards are classified at inception as either "trading" (outright open positions without an offsetting foreign exchange contract) or "hedging" (positions with an offsetting foreign exchange contract, generally part of a foreign exchange swap transaction). Each classification has a separate profit and loss accounting methodology assigned: net present value marked-to-market for trading positions and straight-line allocation for hedging positions.

In addition, the Bank regularly calculates VaR for each currency position. As of 31 December 2014, the Bank's foreign currency VaR was ₱ 2.0 million. A system of loss limits and MAT is utilized to control losses. Foreign exchange related products are also discussed and pricing policies set by the ALCO.

The Bank's Treasurer has the ultimate responsibility over the Bank's foreign exchange risk and can rebalance the allocation of foreign exchange risks among specific currencies and strategies according to the overall nature of foreign exchange exposures approved by management.

Operations Risk Management

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

The Bank maintains departmental operations manuals that are periodically updated. A central tenet of these manuals is that transactions and items of value are subject to a system of dual control whereby the work of one person is verified by a second person to ensure that the transactions are properly authorised, recorded and settled.

Moreover, the Bank places emphasis on the security of its computer systems and has a comprehensive IT security

policy. External vulnerability and penetration testing is performed at least annually as required by relevant BSP regulations. The Bank has also designated a security administrator independent of the front office who is responsible for maintaining strict control over user access privileges to the Bank's information systems.

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

Operational Controls and Procedures in Branches

The Bank employs several operational control measures and procedures to mitigate risks in its branches. These include the segregation of duties such that no individual has complete authority and responsibility for handling all phases of any transaction. An Approval Authorities Manual has been issued to identify approving authorities and approval limits of officers in the bank. The necessary review and scrutiny of a transaction must be performed by an authorized associate of a branch or operating unit before proceeding with the processing of transactions. In addition, the use of Bank's operations system is limited to authorized employees. Reconciliation and balancing procedures are done regularly to establish the accuracy of branch records and establish employee accountability.

The Bank also has security policies and procedures which are currently being implemented for the purpose of attaining safety and security of both the Bank and its personnel. These include: (a) personnel security, with the objective of ensuring that employees of the bank are capable, reliable, trustworthy and loyal, in consonance with the Bank's hiring policies, and to provide guidelines with the screening and training of agency personnel to become more effective in their duties; (b) documents and information security, with the objective of determining the security to be applied to the hardware/software of the Bank depending on its classification such as critical, confidential, internal use and unclassified; (c) information and system availability to ensure that a system or process is in place for identifying those assets that would severely affect the operation of the Bank if they become unavailable; and (d) physical security, which includes structural barriers such as fences, lights, doors, windows, vault walls and doors.

The operations of business centres are governed by policy guidelines and detailed procedures that are formulated to guide the officers and staff in the process of initiating day to day banking transactions. Compliance reviews and regular audit examinations are being done to ensure that the Bank's policies and procedures are properly implemented.

Operational Controls and Procedures in Treasury

The Bank has implemented pre-trade control policies and procedures, which include ensuring that: (a) dealers are aware of established dealing conventions; (b) operating systems have been tested and approved for production; (c) the necessary authorities have approved dealing limits; and (d) counterparties are identified and validated and required documentation is in place.

The Bank's front office treasury policies and controls include ensuring that delegated authority is issued to each dealer, reconciling dealers' positions against the Bank's accounting records, monitoring credit exposure and market risk limits, entering trades and transactions into the system in a timely and accurate manner and checking dealing system information on a spot basis. The Treasury Operations Department reviews trade information on the dealing screens and telex logs to ensure that deals are recorded and input properly. The Treasury Operations Department also has the responsibility of investigating and resolving inconsistencies in the confirmation process.

Treasury positions are reported to ALCO on a trade date basis for each issue, issuer, industry, rating category and country of issuer. These positions are compared to the approved limits. The age of securities positions is monitored on a first in/first out basis from the trade inception. Because of differing valuation standards, the Bank places controls on internal transfers of securities from their accounts as inception to other classifications.

Non-standard transactions, which are transactions not booked routinely in the back office systems, are subject to special procedures. A business unit head of a unit entering the transaction must verify that all back-office systems required to book, value and measure exposure of the transaction are in place or can be developed in a timely manner. The Treasury Operations Department undertakes the settlement of funds and securities and follows procedures and controls designed to minimize operational risk, including procedures concerning confirmation matching of payments from counterparties, dealing with confirmation exceptions and reporting settlement exposures and payment failures.

The Treasury Operations Department reports all projected settlement exposures as well as any payment failures to the credit officers in charge of the counterparty or customer relationship.

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In addition, the Bank has implemented operational control policies for accounting and financial control to ensure that transactions are properly recorded in the balance sheet and income statement. These include reconciliation of treasury accounts with the general ledger of the Financial Management System. There is an independent regular mark-to-market process that values portfolio positions at current prices/levels that are provided through live price feed of Reuters or Bloomberg and from other independent third party sources. These generate the estimated mark-to-market of the investment portfolios or positions independent of the front and back office.

Internal Audit

The Bank's internal audit function is performed by its Internal Audit Group ("IAG") and overseen by its Audit Committee and is conducted pursuant to an audit plan. The IAG undertakes a comprehensive audit of all business groups and other functions. IAG performs a financial audit every quarter and undertakes a risk-based audit of all business and operating units on a twelve- to thirty-six months cycle depending on the unit's risk score. Various components of IT from applications to databases, networks and operating systems are covered under the annual audit plan. The Bank's audit plan is approved by the Audit Committee and the Board of Directors. Pursuant to BSP regulations, banks in the Philippines are required to constitute an audit committee comprised of at least two independent directors. The Bank's Audit Committee provides guidance and oversees the responsibilities of the internal and external audits of the organization and provides an independent line of reporting for the internal audit function. As of 31 March 2017, the Bank's Audit Committee included two independent directors, Melito S. Salazar, Jr. and Atty. Adelita A. Vergel De Dios.

Anti-Money Laundering Controls

The AMLA or Republic Act (Rep. Act) No. 9160 was passed in September 2001. It was subsequently amended by Rep. Act No. 9194, Rep. Act No. 10167, and Rep. Act No. 10365 in March 2003, June 2012 and February 2013, respectively. Meanwhile, the Terrorism Financing Prevention and Suppression Act (CFT) passed in June 2012 by virtue of Rep. Act No. 10168.

Under the AMLA, as amended, the Group is required to submit Covered Transaction Reports (CTRs). CTRs involve single transactions in cash or other equivalent monetary instruments in excess ₱ 500,000.00 within one banking day. The Group is also required to submit STRs to the AMLC. STRs are reports involving transactions where specific circumstances exist and there are reasonable grounds to believe that the transactions are suspicious.

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

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

The Group's MLPP is revised annually to ensure that its KYC policies and guidelines are updated. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records prior to account opening. Decisions to enter into a business relationship with a high

risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, a Group Head's approval is necessary.

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

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

Legal Risk & Regulatory Risk Management

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

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

Capital Adequacy

The Philippines adopted capital adequacy requirements based on the Basel Capital Accord in July 2001. As of 31 December 2016, the Bank's core capital ratio (the ratio of Tier 1 capital to risk-weighted assets) was 12.9%, while its risk-weighted capital ratio (the ratio of total capital to risk-weighted assets) was 16.2% The BSP's minimum risk weighted capital ratio is 10.0%

The following table sets out the capital adequacy ratios of the Bank as of the dates indicated:

	As of 31 December			As of 31 March (Unaudited)	
	2014	2015	2016	2016	2017
Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital					
Paid up common stock	12,757	13,999	13,999	13,999	13,999
Additional paid in capital	16,147	22,635	22,635	22,635	22,635
Retained Earnings	13,928	16,798	20,981	21,983	24,786
Undivided profits	4,332	5,117	3,864	1,659	937
Net unrealized gains or losses on AFS securities	1,060	658	2,367	683	2,111
Cumulative foreign currency translation	274	82	86	79	87
Minority interest in subsidiary financial allied undertaking which are less than wholly owned	24	29	31	30	31
Others	-	-	(1,342)	-	(1,262)
Common Equity Tier 1 (CET1) Capital	48,552	59,318	62,621	61,068	63,324
Less: Regulatory Adjustments to CET1 Capital					
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	348	412	-	1	-
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	-	-	-	423	-
Deferred tax assets	84	1,104	2,137	1,306	2,174
Goodwill	158	158	158	158	158
Other Intangible Assets	879	1,958	1,965	1,943	1,936
Defined benefit pension fund assets (liabilities)	231	1	-	1	-
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any					
Minority investments (below 10% of voting stock) in subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for both solo and consolidated bases) 13/	17	-	-	-	-
Other equity investments in non-financial allied undertakings and non-allied undertakings	6,720	6,898	8,512	6,708	8,261
Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	-	8	8	8	8
Total Regulatory Adjustments to CET1 Capital	8,437	10,539	12,780	10,548	12,537
Total Common Equity Tier 1 Capital	**40,084**	**48,779**	**49,842**	**50,521**	**50,790**
Additional Tier 1 (AT1) Capital					
Instruments issued by the bank that are eligible as AT1 Capital	3	3	3	3	3
Less: Regulatory Adjustments to AT1 Capital	-	-	-	-	-
Total Additional Tier 1 (AT1) Capital	**3**	**3**	**3**	**3**	**3**
Total Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital	**40,087**	**48,782**	**49,845**	**50,524**	**50,793**

Tier 2 Capital					
Instruments issued by the bank that are eligible as Tier 2 capital	9,921	9,936	9,952	9,940	9,956
General loan loss provision	2,084	2,389	2,670	2,495	2,737
Total Tier 2 capital	12,005	12,325	12,622	12,435	12,693
Less: Regulatory Adjustments to Tier 2 Capital	-	-	-	-	-
Total Tier 2 Capital	**12,005**	**12,325**	**12,622**	**12,435**	12,692
Total Qualifying Capital	**52,092**	**61,107**	**62,467**	**62,959**	**63,486**

The following table sets out a breakdown of the Bank's consolidated capital base by category of capital as of the dates indicated based on Basel III standards:

	Year ended 31 December			Three months ended 31 March (Unaudited)	
	2014	**2015**	**2016**	**2016**	**2017**
	(%)	**(%)**	**(%)**	**(%)**	**(%)**
Core capital ratio (Tier 1)[1]	11.8	12.6	12.9	13.1	12.5
Risk-weighted capital ratio	15.4	15.7	16.2	16.3	15.6

Notes:

(1) Total qualifying capital less Tier 2 capital divided by total risk weighted assets.

The following table sets out the breakdown of the Bank's consolidated risk-weighted assets by category as of the dates indicated:

	As of 31 December			As of 31 March (Unaudited)	
	2014*	**2015***	**2016**	**2016**	**2017**
			(in ₱ millions)		
Risk-weighted on-balance sheet assets					
20%.....	745	783	1,065	526	1,235
50%.....	33,920	31,321	27,195	33,433	35,764
75%.....	6,447	6,245	7,137	6,094	7,114
100%.....	231,634	289,795	290,026	282,841	296,708
150%.....	9,099	8,603	9,104	8,928	11,301
Total risk-weighted on-balance sheet assets	**281,845**	**336,747**	**334,527**	**331,822**	**352,122**
Risk-weighted off-balance sheet exposures.....	10,565	9,444	9,261	8,645	8,477
Total risk-weighted interest rate and exchange rate related contingencies / Others	431	766	1,308	1,073	1,469
Market and operational risk weighted assets ..	46,108	41,847	41,567	45,593	44,454
Total risk-weighted assets	**338,949**	**388,804**	**386,663**	**387,133**	**406,522**

* Computed based on Basel III standards

DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following audited financial information should be read together with the Bank's financial statements included in this Offering Circular as well as "Risk Management" and "Business".

Funding

The Bank's main sources of funding are time, savings and demand deposits. Deposits represented 67.7% of the Bank's total assets as at the end of the year ended 31 December 2016. As of 31 December 2016, time, savings and demand deposits represented 41.9%, 46.1% and 11.9%, respectively, of total consolidated deposits of ₱ 353.1 billion. In recent years, the Bank has made directed efforts to increase its deposit base. The Bank also sources its funding requirements from the interbank market and general financings.

Sources of Funding

The following table sets forth an analysis of the Group's principal funding sources and the average cost of each funding source for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)	Amount in ₱ millions	Ave Cost (%)
Deposits by type										
Demand	44,311	0.30%	42,053	0.30%	51,996	0.30%	46,890	0.25%	52,495	0.33%
Savings	178,197	0.30%	162,926	0.30%	165,187	0.30%	168,878	0.25%	167,484	0.26%
Time	119,854	2.00%	148,098	2.10%	171,229	2.20%	148,617	2.18%	174,635	2.61%
Total	**342,362**	**0.90%**	**353,077**	**1.00%**	**388,412**	**1.10%**	**364,385**	**1.04%**	**394,614**	**1.29%**
Deposits by currency										
Peso	269,148	1.00%	260,793	1.00%	316,544	1.10%	279,708	1.21%	316,185	1.43%
Foreign currency	73,214	0.60%	92,284	0.60%	71,868	0.70%	84,677	0.38%	78,429	0.74%
Total	**342,362**	**0.90%**	**353,077**	**0.90%**	**388,412**	**1.10%**	**364,385**	**1.04%**	**394,614**	**1.29%**
Borrowing										
Peso	20,199	3.90%	25,433	4.60%	25,826	4.00%	20,184	6.55%	39,468	3.90%
Foreign currency	78,505	2.40%	63,757	4.30%	56,167	3.20%	60,065	3.79%	65,899	3.13%
Total	**98,704**	**3.10%**	**89,190**	**4.40%**	**306,167**	**3.60%**	**80,249**	**4.21%**	**105,367**	**3.35%**

Deposits

The Bank's principal sources of deposits are corporations and institutions. As of 31 March 2018, the Bank's largest deposit made up 1.59% of its total deposits, and the Bank's largest five depositors made up 6.12% of its total deposits. As of 31 March 2018, corporate and institutional deposits accounted for approximately 38.62% of the Bank's consolidated total Peso denominated deposit liabilities. The remainder of the deposits comprises principally of deposits by individuals. The Bank's foreign currency denominated deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of 31 March 2018, the Bank's foreign currency deposits made up 19.87% of its total deposits.

The Bank has expanded its sources of funding in order to diversify the scheduled maturities of deposits and maintain a funding portfolio that will enable it to achieve funding stability, liquidity, and reduce the discrepancies between its loan and deposit maturities. The Bank has also introduced and plans to continue to introduce, internal and external programs to encourage increases in deposits, such as the Savecation raffle promotion and introduction of special rates for certain deposit accounts. Although the majority of the Bank's customer deposits are short-term, the Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a source of long-term funds.

As of March 31, 2018, 55.75% of the Bank's outstanding deposits were demand and savings deposits which can be withdrawn on demand without any prior notice from the Bank's customers, as compared to 59.21% as of March 31, 2017.
The following table sets out, for the periods indicated, an analysis of the maturities of the deposit base of the Bank:

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(Amount in ₱ millions)				
Deposits by type					
Demand	44,311	42,053	51,996	46,890	52,495
Savings	178,197	162,926	165,187	168,878	167,484
Time					
Up to 1 year	101,533	128,146	148,849	128,045	147,333
Over 1 year to 5 years	5,175	6,253	10,684	6,705	11,281
Over 5 years	13,146	13,699	11,696	13,867	16,021
Total time deposits	119,854	148,098	171,229	148,617	174,635
Total	**342,362**	**353,077**	**388,412**	**364,385**	**394,614**

The following table sets out, for the periods indicated, an analysis of the maturities of the deposit base of the Group:

	As of 31 December			As of 31 March (Unaudited)	
	2014	2015	2016	2016	2017
	(Amount in ₱ millions)				
Deposits by type					
Demand	32,197	44,311	42,053	41,206	46,890
Savings	164,269	178,197	162,926	163,476	168,878
Time					
Up to 1 year	100,570	101,533	128,146	93,085	128,045
Over 1 year to 5 years	2,269	5,175	6,253	5,931	6,705
Over 5 years	16,456	13,146	13,699	13,518	13,867
Total time deposits	119,295	119,854	148,098	112,534	148,617
Total	**315,761**	**342,362**	**353,077**	**317,216**	**364,385**

The Bank also maintains credit lines with domestic commercial banks and financial institutions in the interbank market primarily for treasury management purposes. Interbank borrowings are typically for short-term duration of between

one day and a few weeks. Interbank deposits do not usually form a significant part of the Bank's funding base but, together with the Philippine government bond market, are important in the management of the Bank's liquidity. The BSP is a lender of last resort to the Philippine banking industry. The Bank has not had to resort to this facility but has managed its liquidity through its participation in the interbank market in the Philippines.

The Bank is a member of the Philippine Deposit Insurance Corporation ("PDIC") which insures all deposits up to a maximum of ₱500,000 per depositor. The PDIC is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.

Bills Payable and Other Borrowings

The Bank also sources funds through bills payable. As of 31 March 2018, bills payable, which represent borrowings from local and foreign banks, amounted to ₱ 50,464.00 million. As of 31 March 2018, approximately 73.21% of bills payable were denominated in foreign currencies. The Bank may also issue senior, subordinated or hybrid debt from time to time in order to raise funds or strengthen its capital base.

The following describes certain details of the Bank's outstanding senior notes and previously issued subordinated debt.

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(Amount in ₱ millions, except for percentages)				
TOTAL BILLS PAYABLE					
Period-end balance	49,404	37,643	43,967	22,708	43,773
Average balance during the period	35,368	43,630	34,356	36,814	51,478
Maximum outstanding.....	51,324	52,974	43,967	42,119	60,305
Average interest rate during the period	1.2%	2.2%	1.76%	2.30%	2.80%

Short-term Borrowings

The following table sets forth, for the periods indicated, information related to the Bank's short-term borrowings, which are comprised primarily of money-market borrowings. Short term borrowings exclude deposits and securities sold under repurchase agreements.

	As of 31 December			As of 31 March (Unaudited)	
	2014	2015	2016	2016	2017
	(Amount in ₱ millions, except for percentages)				
Total bills payable					
Period-end balance.....	39,799	49,404	37,643	44,830	42,119
Average balance during the period.....	32,022	35,368	43,630	38,613	36,814
Maximum outstanding	41,171	51,324	52,974	44,830	42,119
Average interest rate during the period	1.4%	1.2%	2.2%	2.0%	2.3%

The following describes certain details of the Bank's outstanding senior notes, previously issued subordinated hybrid securities, and subordinated debt.

Subordinated Debt

On 27 June 2014, the Bank issued ₱ 7.00 billion of Unsecured Subordinated Notes Qualifying as Tier 2 Capital under Basel III standards (the "Tier 2 Notes"). The Tier 2 Notes bore a coupon rate of 5.38% per annum. On 5September 2014, the Bank issued another ₱ 3.00 billion of Tier 2 Capital Notes which will constitute a further issuance of, be

fungible, consolidated, form a single series, and to the extent provided in the terms, rank *pari passu* in all respects with the Tier 2 Notes issued on 27 June 2014.

The Tier 2 Notes and will mature on 27 September 2024, unless RCBC exercises its early redemption option on 26 September 2019. The Tier 2 Notes shall initially bear interest at the rate of 5.38% per annum from and including 27 June 2014 to but excluding 27 September 2019 and shall be payable in quarterly arrears at the end of each interest period on 27 March, 27 June, 27 September, and 27 December of each year. The total interest expense incurred by the Bank on the Tier 2 Notes for the year ended 31 December 2015, 2016 and 2017 and the three months ended 31 March 2017 and 2018 was ₱ 552.00, ₱ 553.00 and ₱ 554.00, ₱ 139.00 and ₱ 138.00, respectively.

Long-term negotiable certificates of deposit

As of 31 March 2018, the Bank's LTNCDs were as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance
			(₱ in millions)
August 11, 2017	February 11, 2023	3.75%	2,502
December 19, 2014	June 19, 2020	4.13%	2,100
November 14, 2013	May 14, 2019	3.25%	2,860
November 14, 2013	May 14, 2019	0.00%	2,040

The Bank most recently issued ₱ 2,502.00 million worth of fixed rate LTNCDs which carry a coupon rate of 3.75% on 11 August 2017 and are scheduled to mature on 11 February 2023. In total, the Bank has ₱ 9,520.00 million in LTNCDs outstanding as of 31 March 2018. The Bank's LTNCDs were used to expand its term deposit base in order to support long-term asset growth and for general funding purposes.

Medium Term Note Programme

On 5 February 2018, the Bank established a USD 2.00 billion Medium Term Notes Program. On 15 March 2018, the Bank settled a drawdown of USD 300.00 million under the program. The senior unsecured fixed rate notes were rated Baa2 by Moody's and had a coupon rate of 4.125% per annum and a tenure of 5 years and one day. The notes will mature on 16 March 2023 and are listed on Singapore Exchange Securities Trading Limited. The proceeds from the notes were used to support and finance the Bank's medium-to-long-term asset growth and for other general corporate purposes. On 27 April 2018, the Bank reopened its 15 March 2018 drawdown of USD 300.00 million in senior unsecured fixed rate notes issued on 15 March 2018 to add a second USD 150.00 million tranche, bringing the total size of the Bank's drawdown from its Medium Term Notes Program in 2018 to USD 450.00 million.

Subordinated Debt.

On 27 June 2014, the Bank issued ₱ 7.0 billion of Unsecured Subordinated Notes Qualifying as Tier 2 Capital under Basel III standards (the "Tier 2 Notes"). The Tier 2 Notes bore a coupon rate of 5.375% per annum and will mature on 27 September 2024 unless RCBC exercises its early redemption option on 26 September 2019.

On 5 September 2014, the Bank issued another ₱ 3.0 billion Tier 2 Capital Notes which will constitute a further issuance of, be fungible, consolidated, form a single series, and to the extent provided in the terms, rank *pari passu* in all respects with the ₱ 7.0 billion 5.375% Unsecured Subordinated Notes due 2024 issued on 27 June 2014.

Liquidity

The Bank must manage its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing, and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a highly liquid asset portfolio, the securing of an ample money market line, and the maintenance of repurchase facilities to protect against any unexpected liquidity shortages.

Pursuant to BSP regulations, such as BSP Circular No. 832, universal banks (including the Bank) are required to

maintain regular reserves of 20.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, 4.0% against long-term negotiable certificate of time deposits ("LTNCDs") under BSP Circular No. 304, 7.0% against LTNCDs under BSP Circular No. 824, 4.0% against deposit substitutes evidenced by repo agreements, and 6.0% against bonds. The BSP also requires banks to maintain asset cover of 100.0% for foreign currency liabilities of their FCDUs, of which 30.0% must be in liquid assets. The Bank has complied with the legal and liquidity reserve requirements for both peso and FCDU deposits. The Bank currently complies with all of the requirements described above.

As of 31 March 2018, the Bank's liquid assets amounted to ₱ 112.69 billion, representing 19.20% of the Bank's total resources. Liquid assets include cash and other cash items, amounts due from BSP, amounts due from other banks, interbank loan receivables and trading and investment securities (excluding investment securities at amortized cost).

	Year ended December 31			Three months ended March 31	
	2015	2016	2017	2017	2018
	(Amount in ₱ millions, except for percentages)				
Liquid assets(1)	89,500	133,472	110,772	117,820	112,691
Financial ratios					
Liquid assets-to-total assets	17.30%	25.60%	20.00%	22.40%	19.20%
Liquid assets-to total deposits	26.10%	37.80%	28.50%	32.30%	28.60%
Net loans-to-total deposits	86.70%	37.80%	90.80%	86.20%	96.20%

	As of 31 December			As of 31 March (Unaudited)	
	2014	2015	2016	2016	2017
	(Amount in ₱ millions, except for percentages)				
Liquid assets(1)	79,467	89,500	141,361	90,394	113,898
Financial ratios					
Liquid assets-to-total assets	17.4%	17.3%	27.1%	18.5%	21.7%
Liquid assets-to total deposits	25.2%	26.1%	40.0%	28.5%	31.3%
Net loans-to-total deposits	82.3%	86.7%	89.1%	95.1%	86.2%

Notes:

(1) Liquid assets includes cash and cash items, deposits with the BSP and deposits with other banks, loan and receivables arising from revise repurchase agreement, interbank loan receivables, FVPL and FVOCI.

Loan Portfolio

As of 31 March 2018, the Bank's total loan portfolio amounted to ₱ 370,948.00 million, representing approximately 63.33% of its total assets as of that date. The Bank's total consolidated loan portfolio increased by 18.33% from 31 March 2017 primarily due to growth across all lending segments of the Bank.

As of 31 March 2018, loans to corporate accounts were ₱ 206,240.00 million, accounting for 59.40% of the Bank's total consolidated loan portfolio. Lending to SMEs totaled ₱ 48,170.00 million as of 31 March 2018, accounting for 13.87% of the Bank's total consolidated earning loan portfolio. Lending to consumers totaled ₱ 91,854.00 million as of 31 March 2018, accounting for 26.46% of the Bank's total consolidated earning loan portfolio.

Industry Concentration

As of 31 March 2018, the real estate industry represented the largest sectors of the Bank's consolidated loan portfolio at 24.40% The majority of real estate lending comprises mortgage loans to consumers and working capital loans to private real estate developers. The second largest industry concentration of the Bank is the electricity, gas and water sector, followed by the consumer sector. The Bank has set industry limits reviewed on a periodic basis to manage risk concentrations.

The following table sets forth an analysis of the Bank's consolidated loan portfolio by economic activity, as defined and categorized by the BSP:

	Year ended December 31,						Three months ended March 31			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	**(%)**	**Amount in ₱ millions**	**(%)**	**Amount in ₱ millions**	**(%)**	**Amount in ₱ millions**	**(%)**	**Amount in ₱ millions**	**(%)**
Real estate, renting and other related activities	76,052	25.60%	70,532	23.10%	81,927	23.22%	74,735	23.80%	83,193	22.40%
Electricity, gas and water	51,148	17.20%	52,062	17.00%	64,794	18.36%	57,142	18.20%	67,184	18.10%
Consumer	37,855	12.80%	44,174	14.50%	54,196	15.36%	50,518	16.10%	55,132	14.90%
Wholesale and retail trade	23,993	8.10%	26,279	8.60%	40,500	11.48%	28,738	9.20%	39,742	10.70%
Manufacturing (various industries)	39,497	13.30%	41,689	13.60%	35,034	9.93%	38,389	12.20%	48,826	13.20%
Transportation and communication	18,425	6.20%	18,270	6.00%	22,918	6.50%	18,127	5.80%	21,411	5.80%
Financial intermediaries	7,822	2.60%	18,783	6.15%	21,521	6.10%	16,903	5.40%	20,883	5.60%
Other community, social and personal activities	24,737	8.30%	19,231	6.30%	14,799	4.19%	10,914	3.50%	15,130	4.10%
Agriculture, fishing and forestry	3,796	1.30%	4,090	1.30%	4,928	1.40%	4,125	1.30%	4,880	1.30%
Hotels and restaurants	3,018	1.00%	3,260	1.10%	4,133	1.17%	5,033	1.60%	4,719	1.30%
Mining and quarry	1,934	0.65%	1,984	0.65%	1,922	0.54%	1,946	0.60%	1,994	0.50%
Others	6,556	2.20%	5,305	1.70%	6,173	1.75%	7,229	2.30%	7,854	2.10%
Total	**296,891**	**100.00%**	**305,659**	**100.00%**	**352,845**	**100.00%**	**313,800**	**100.00%**	**370,948**	**100.00%**

The Bank intends to continue to focus its lending activities on lower risk areas such as Government guaranteed loans, top tier corporate loans, trade finance loans, and mortgage loans.

The Bank maintains a flexible policy toward exposure to the Philippine economy, in principal avoiding exposure of more than 30% to a particular individual sub-sector of the economy. The Bank also monitors its exposure to specific sectors of the economy to ensure compliance with specific pre-determined lending requirements imposed by law on all Philippine banks. The Bank must comply with legal requirements to make loans available to SMEs. Mandatory credit allocation laws require all Philippine banks to allocate 6% of their loan portfolios to small-sized enterprises and two% to medium-sized enterprises. The Bank is in compliance with these requirements.

BSP regulations require banks to allocate 25.0% of their loanable funds for agricultural credit in general, of which at least 10.0% must be made available for agrarian reform credit. Alternatively, a bank may temporarily meet all or a portion of its agrarian reform and agricultural lending requirements by investing in eligible government securities under certain conditions. For the year ended 31 December 2017, the Bank satisfied these requirements as it provided ₱ 10.09 billion in loans to borrowers in the agricultural sector.

Maturity

Loans repayable on demand principally comprise inter-bank loans, while short-term loans principally comprise loans to corporates for working capital and loans to consumers and SMEs. Medium- and long-term loans are typically granted to corporations and businesses to finance capital expenditures and mortgages advanced for property purchases. The percentage of the Bank's loans with longer maturities has increased recently due primarily to increases in mortgage loans.

The following table sets out an analysis of the Bank's consolidated loans by maturity:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Within one year	69,727	23.50%	78,613	25.70%	92,550	26.23%	88,309	28.50%	97,500	26.30%
More than one year	227,164	76.50%	227,046	74.30%	260,295	73.77%	224,491	71.50%	273,448	73.70%
Total	**296,891**	**100.00%**	**305,659**	**100.00%**	**352,845**	**100.00%**	**313,800**	**100.00%**	**370,948**	**100.00%**

Foreign Currencies

The Bank maintains its practice of extending foreign currency loans primarily to exporters who have an identifiable source of foreign currency earnings from which to repay the loans or otherwise hedged, and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency obligations.

As of 31 March 2018, 79.61% of the Bank's loan portfolio was denominated in Pesos while 20.39% was denominated in foreign currencies, the majority of which comprised U.S. Dollars. The following table shows an analysis of the Bank's net loans and receivables by currency:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Pesos	256,390	85.72%	251,019	81.99%	299,303	84.49%	256,626	81.78%	295,312	79.61%
Foreign Currency	42,729	14.28%	55,148	18.01%	54,940	15.51%	57,173	18.22%	75,636	20.39%
Total	**299,119**	**100.00%**	**306,167**	**100.00%**	**354,243**	**100.00%**	**313,800**	**100.00%**	**370,948**	**100.00%**

Interest Rates

An important component of the Bank's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Bank's interest rates on its interest-earning assets and interest-bearing liabilities. See "*Risk Management — Interest Rate Risk Management*". The Bank's loan pricing is set by the Bank's Asset and Liability Committee ("ALCO") on a weekly basis and is driven by market factors, the Bank's funding position and the credit risk associated with the relevant borrower. The lending market in the Philippines is principally based on floating rate lending. The Bank's floating rate loans are re-priced periodically by reference to the applicable Philippine Treasury Bill rate/Philippine dealings system rate and to the Bank's internal cost of funds plus a spread. As a result, the Bank's exposure to interest rate fluctuations is significantly reduced. See *"Risk Management — Interest Rate Risk Management"*. The following table shows the total amount of the Bank's loans that have fixed interest rates and variable or adjustable interest rates as for the periods indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Fixed rate	103,745	34.94%	130,869	42.82%	132,901	37.67%	128,966	41.10%	75,682	20.40%
Variable or adjustable rates	193,146	65.06%	174,790	57.18%	219,944	62.33%	184,804	58.90%	295,266	79.60%
Total	**296,891**	**100.00%**	**305,659**	**100.00%**	**352,845**	**100.00%**	**313,800**	**100.00%**	**370,948**	**100.00%**

The Bank's pricing policy with respect to its interest-bearing liabilities is also set by ALCO at its weekly meetings. Select current account deposits pay interest on a monthly basis and savings account deposits typically pay no interest for deposits falling below the "required balance to earn an interest". The basic rate for savings account deposits that are above the minimum threshold is currently 0.15% per annum. The Bank also offers special interest rates for deposits under its time deposits account. These larger deposits are placed on pre-agreed terms and pay interest rates that generally track Philippine Treasury Bill rates.

Size and Concentration of Loans

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0% of its net worth. As of 31 March 2018, the Bank's single borrower limit, set by the BSP, was ₱ 16.15 billion. In determining whether the Bank meets the SBL, the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). This limit does not apply to loans which are secured with non-risk assets, including cash deposits and government securities. The Bank has complied with the SBL on all of its loans.

As of 31 March 2018, the Bank's single largest corporate borrower accounted for 2.47% of the Bank's outstanding loan portfolio. These loans are unconditionally guaranteed by the Republic of the Philippines. As of 31 March 2018, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱ 70.81 billion or 19.09% of the Bank's outstanding loan portfolio.

The following table presents a breakdown of total loans by principal amount as a percentage of total loans as of the periods indicated:

	Year ended December 31,			Three months ended March 31,	
	2015	**2016**	**2017**	**2017**	**2018**
		(%)			
P5,000,000 or less	23.00	24.80	29.00	24.70	28.50
P5,000,001 to P10,000,000.....	4.30	4.00	4.20	3.90	3.90
P10,000,001 to P15,000,000	2.00	2.00	2.20	1.90	2.20
More than P15,000,000	70.80	69.10	64.70	69.40	65.40
Total.....	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Secured and Unsecured Loans

The Bank principally focuses on cash flows and cash generating capabilities in assessing the creditworthiness of borrowers. However, the Bank will secondarily seek to minimize credit risk with respect to a loan by securing loans with collateral or guarantees. Acceptable collaterals include real estate mortgages (with loan values ranging from 50.0% to 60.0% of appraised value), unconditional guarantee from fully-owned government institutions, landbank/agrarian reform bonds (with loan value of 70.0% if face value or unmatured value at the time of acceptance, standby letters of credit issued by internationally-renowned banks, chattels (with loan values ranging from 30.0% to 50.0% of appraised value), land bank/agrarian reform bonds (with loan value of 70.0% of face value or unmatured value at the time of acceptance), shares of stocks and corporate bonds (with loan value of 50.0% of market value) and club shares (with loan value of 50.0% of market value after transfer costs). An unconditional guarantee from fully-owned government institutions and standby letters of credit issued by internationally-renowned banks are also accepted as collateral. As of 31 March 2018, approximately 48.94% of the Bank's total loans were extended on a secured basis, with approximately 56.32% of the secured loans backed by real estate mortgages.

The following table sets forth the Bank's secured and unsecured loans, classified (in the case of secured loans) according to type of security:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Secured										
Real estate mortgages ..	79,505	26.78%	78,707	25.75%	86,193	24.43%	80,611	25.69%	102,231	27.56%
Chattel mortgage.....	23,259	7.85%	31,831	10.41%	37,975	10.76%	34,551	11.01%	41,015	11.06%
Hold-out deposits.....	17,634	5.94%	16,379	5.36%	15,799	4.48%	15,693	5.00%	14,547	3.92%
Other securities.....	35,212	11.86%	29,294	9.58%	26,718	7.57%	28,871	9.20%	23,734	6.40%
Total Secured.....	**155,610**	**52.41%**	**156,211**	**51.11%**	**166,685**	**47.24%**	**159,726**	**50.90%**	**181,527**	**48.94%**
Unsecured.....	**141,281**	**47.59%**	**149,448**	**48.89%**	**186,160**	**52.76%**	**154,074**	**49.10%**	**189,421**	**51.06%**
Total.....	**296,891**	**100.00%**	**305,659**	**100.00%**	**352,845**	**100.00%**	**313,800**	**100.00%**	**370,948**	**100.00%**

In the Philippine banking industry as a whole and in the Bank's loan portfolio, secured loans are predominantly secured by real estate. Other forms of collateral include collateral over machinery and inventory and cash collateral. Personal guarantees are accepted from time to time as an additional source of collateral enhancement.

Loan Administration and Loan Loss Provisioning

Loan Classifications

The Bank classifies loans as non-performing in accordance with BSP guidelines. The guidelines require banks to classify their loan portfolios based on perceived levels of risk to encourage timely and adequate management action to maintain the quality of their loan portfolios. These classifications are then used to determine the minimum levels of allowances for loan losses which banks are required to maintain. All of the Bank's risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified, as follows:

Loans especially mentioned

These are loans that the Bank believes have potential weaknesses that deserve management's close attention, and which deficiencies, if left uncorrected, could affect repayment. Weaknesses include repayment capability which may be endangered by economic/market conditions as reflected in the borrower's deteriorating financial performance, the existence of technical defects in the supporting collateral, and insufficient credit information about the borrower. Loans falling under this classification are given a 5% loan loss allowance.

Sub-standard loans

This classification includes loans that the Bank believes represent a substantial and unreasonable degree of risk to the Bank. Those loans classified as sub-standard have a weakness that is well-defined that jeopardizes their liquidation. Such weaknesses may include adverse trends of a financial, managerial, economic or political nature, or a significant weakness in collateral.

Doubtful loans

These are sub-standard loans for which the Bank believes collection in full, either according to their terms or through liquidation, is highly improbable, and substantial loss is probable.

Loss loans

Loans which fall under this category are considered uncollectible or of insufficient value to warrant classification as bankable assets. The appropriate classification is generally made once payments on a loan are in arrears for more than 90 days, but may be made earlier when the loan is not yet past due if there are, among other things, indications of the deterioration of the creditworthiness of the borrower. Once interest on a loan is past due for 90 days, the Bank will

classify the entire principal outstanding under such loan as past due, and it may initiate calling on all loans outstanding to that borrower as due and demandable.

Provisions

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

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

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

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

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

	Years ended December 31						Three months ended March 31	
	2015		2016		2017		2017	
	Amount in P millions	(%)	Amount in P millions	(%)	Amount in P millions	(%)	Amount in P millions	(%)
Risk classification								
Especially mentioned	533.00	25.10	302.30	12.70	116.83	4.30	298.10	13.50
Sub-standard — secured	337.20	15.30	781.90	32.70	1,207.20	44.30	581.84	26.30
Sub-standard — unsecured	147.70	6.70	137.30	5.70	456.66	16.80	149.39	6.70
Doubtful	572.90	26.10	726.70	30.40	686.71	25.20	682.28	30.80
Loss	588.10	26.70	439.90	18.40	257.83	9.50	501.65	22.70
Total classified	**2,198.90**	**100.00**	**2,338.10**	**100.00**	**2,725.24**	**100.00**	**2,213.26**	**100.00**
Unclassified	216,884.10		212,625.90		245,500.76		219,110.39	
Total	**219,083.00**	**100.00**	**214,964.00**	**100.00**	**248,226.00**	**100.00**	**221,323.65**	**100.00**
Allowance for impairment								
Classified	971.30	27.30	930.80	25.70	841.19	21.20	951.68	26.10
Unclassified	2,586.70	72.70	2,688.60	74.30	3,130.74	78.80	2,687.86	73.90
Total	**3,558.00**	**100.00**	**3,619.40**	**100.00**	**3,971.93**	**100.00**	**3,639.54**	**100.00**

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

As of 31 March 2018, the Bank's allowance for impairment for NPLs to gross NPL ratio was 57.71%.

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

Allocation of Provisions

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

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(Amount in ₱ millions)				
Balance of reserves at beginning of period	6,457	7,040	7,411	7,411	7,993
Provisions during the year	2,067	1,736	2,076	323	454
Impact of adoption of PFRS 9 (2014)	—	—	—	—	(370)
Account written off/ others	(1,484)	(1,365)	(1,494)	(413	(211)
Balance at the end of the period	**7,040**	**7,411**	**7,993**	**7,321**	**7,836**

Non-performing Assets

In accordance with BSP guidelines, loans and other assets in litigation are classified as NPAs. The Bank's NPAs principally comprise ROPA and NPLs. The table below sets out details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses for the specified periods on a consolidated basis:

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	Amount in ₱ millions				
Non-performing loans — net	2,305	3,065	4,491	4,349	4,387
Classified loans	5,427	6,546	8,252	7,978	8,368
Total loans — net	296,891	306,174	352,883	314,112	371,195
Total non-performing loans-to-total loans (%)	0.80%	1.00%	1.30%	1.38%	1.18%
Classified loans/total loans (%)	1.80%	2.10%	2.30%	2.54%	2.25%
Non-accruing loans	5,427	6,546	8,252	7,978	8,368
Non-accruing loans-to-total loans (%)	1.80%	2.10%	2.30%	2.54%	2.25%
ROPA — gross	3,971	4,507	2,545	4,491	2,509
ROPA/total tangible assets (%)	0.80%	0.70%	0.40%	0.72%	0.38%
ROPA/total tangible equity (excluding intangibles and deferred tax assets) (%)	7.10%	6.40%	3.50%	6.24%	3.40%
Non-performing assets (NPL — net plus ROPA, gross)	10,447	11,099	10,773	23,390	11,344
Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets) (%)	1.40%	1.50%	1.30%	1.73%	1.27%
Allowance for impairment (total NPAs)	6,815	8,122	8,139	7,426	9,008
Allowance for impairment (loans)	5,711	7,026	7,507	6,156	8,372
Allowance for impairment (other ROPA)	1,104	1,096	632	1,270	636
Allowance for impairment (loans) as a percentage of total non-performing loans (%)	105.20%	110.60%	94.90%	79.61%	100.05%
Allowance for impairment (total) as a percentage of total non-performing assets (%)	65.2%	68.60%	73.40%	56.50%	77.25%
Total restructured loans	380	531	887	530	887
Classified as performing	164	207	638	199	543
Classified as non-performing	215	324	249	331	344
Restructured loans as a percentage of total loans (%)	0.10%	0.20%	0.30%	0.17%	0.24%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing (%)	91.00%	101.20%	101.80%	80.68%	113.95%

Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing (%)	90.40%	99.80%	107.00%	79.53%	116.88%
Loans — written off	1,402	779	240	254	210

	As of 31 December			As of 31 March (Unaudited)	
	2014	2015	2016	2016	2017
	Amount in ₱ millions				
Non-performing loans - net	2,636	2,305	3,065	2,452	4,349
Classified loans	5,464	5,427	6,546	5,963	7,978
Total loans – net	259,011	296,891	314,063	300,932	314,112
Total non-performing loans-to-total loans[1]	1.0%	0.8%	1.0%	0.8%	1.4%
Classified loans/total loans	2.1%	1.8%	2.1%	2.0%	2.5%
Non-accruing loans	5,464	5,427	6,546	5,963	7,978
Non-accruing loans-to-total loans	2.1%	1.8%	2.1%	2.0%	2.5%
ROPA – gross	4,345	3,971	4,507	4,174	4,491
ROPA/total tangible assets	1.0%	0.8%	0.7%	0.7%	0.7%
ROPA/total tangible equity (excluding intangibles and deferred tax assets)	8.3%	7.3%	6.4%	6.2%	6.2%
Non-performing assets (NPL - net plus ROPA, gross)	10,218	10,447	11,099	10,151	12,390
Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets)	1.7%	1.4%	1.5%	1.4%	1.7%
Allowance for impairment (total loans, ROPA)	5,892	6,815	8,122	6,742	7,310
Allowance for impairment (loans)	4,972	5,711	7,026	5,737	6,156
Allowance for impairment (ROPA)	920	1,104	1,096	1,005	1,154
Allowance for impairment (loans) as a percentage of total non-performing loans	96.1%	105.2%	110.6%	101.8%	79.6%
Allowance for impairment (total) as a percentage of total non-performing assets	76.7%	65.2%	68.6%	62.5%	55.6%
Total restructured loans	254	380	531	254	530
Classified as performing	137	164	207	167	199
Classified as non-performing	117	215	324	87	331
Restructured loans as a percentage of total loans	0.1%	0.1%	0.2%	0.1%	0.2%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing	75.4%	91.0%	101.2%	94.5%	79.4%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing	75.6%	90.4%	99.8%	95.6%	78.3%
Loans - written off	643	1,402	779	295	254

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due; and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

Loans which have been foreclosed or have been transferred to the Bank's ROPA account are no longer classified as NPLs. Accrued interest arising from loan accounts are classified according to the classification of their corresponding loan accounts except for those which remain uncollected after six months from the date such loans or installments have matured or have become past due for which a 100.0% allowance is made for uncollected accrued interest receivables.

Sectoral Analysis of NPLs

The following table sets forth the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs on a non-consolidated basis as of the dates indicated:

	Year ended December 31,						Three months ended March 31,			
	2015		2016		2017		2017		2018	
	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)	Amount in ₱ millions	(%)
Agriculture, hunting, forestry and fishing	4.50	0.20%	109.10	5.70%	2.60	0.09%	113.30	4.41%	103.00	2.89%
Coconut production, sugar production, & fishing	4.30	0.20%	4.60	0.30%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Mining and quarrying	1.00	0.00%	—	0.00%	0.00	0.00%	2.80	0.11%	0.00	0.00%
Manufacturing	391.60	10.80%	184.20	9.60%	131.70	4.62%	184.00	7.16%	595.90	16.70%
Electricity, gas and water	—	0.00%	—	0.00%	285.00	10.00%	0.00	0.00%	285.00	7.99%
Wholesale and retail trade	497.70	22.70%	449.30	23.50%	512.44	17.98%	424.90	16.53%	662.80	18.57%
Hotels and restaurants	6.90	0.30%	11.00	0.60%	16.34	0.57%	7.90	0.31%	16.00	0.45%
Transportation, storage and communication	8.40	0.40%	34.90	1.80%	36.22	1.27%	55.70	2.16%	37.50	1.05%
Financial intermediation	5.00	0.20%	17.00	0.90%	16.98	0.60%	27.00	1.05%	16.90	0.47%
Diversified holding company	—	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	0.00%
Real estate and other business services	246.10	11.20%	205.00	10.70%	939.61	32.96%	919.80	35.78%	989.60	27.73%
Health and social work, Education and other community, social and personal services	12.10	0.60%	17.50	0.90%	15.36	0.54%	22.70	0.88%	10.00	0.28%
Others	1,022.00	46.40%	880.70	46.00%	894.41	31.38%	813.00	31.62%	852.30	23.88%
Total	**2,199.60**	**100.00%**	**1,913.30**	**100.00%**	**2,850.65**	**100.00%**	**2,570.90**	**100.00%**	**3,569.00**	**100.00%**

The Bank's gross NPLs on a consolidated basis represented approximately 2.27% of the Bank's total consolidated gross loan portfolio of as of 31 March 2018. As of 31 March 2018, ₱ 1.00 million of the Bank's loans to DOSRI were clarified as NPLs and represented approximately 0.14% of the Bank's totally consolidated gross loan portfolio.

Ten Largest NPLs

As of 31 March 2018, the Bank's ten largest NPLs accounted for 0.53% of its total loans to customers and 23.35% of its gross NPLs to customers. As of this same date, the Bank's exposure to its ten largest NPLs ranged from ₱ 52.70 million to ₱ 722.04 million, and amounted to approximately ₱ 1,964.97 million in aggregate.

Loan Restructuring

In order to manage its loan portfolio and reduce its exposure to NPLs, the Bank's practice is to restructure those classified loans which it considers suitable for restructuring. The Bank restructures loans on a case-by-case basis. Restructuring methods used by the Bank have included extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cash flows of the borrower in question. The Bank has also agreed to debt-for-equity swaps, but rarely uses this as a restructuring solution. In certain instances, the Bank has also favorably considered discounted compromise loan settlement schemes, provided the corresponding net present value analysis results in better returns and risk considerations versus yields and risks posed by longer-term restructures or litigation.

In accordance with BSP guidelines, NPLs which are successfully restructured are considered to be current and are no longer treated by the Bank as non-performing, generally following a continued payment of three to six amortizations on the restructured loans. As of 31 March 2018, the Bank had a consolidated portfolio of approximately P 887.00 million of total restructured loans, including both performing and non-performing amounts.

The following table sets out the Bank's consolidated restructured loans for the specified periods:

	Year ended December 31,			Three months ended March 31,	
	2015	2016	2017	2017	2018
	(Amount in P millions)				
Non-performing restructured loans	215	324	249	331	344
Performing restructured loans	164	207	638	199	543
Total.....	**379**	**531**	**887**	**530**	**887**

	As of 31 December			As of 31 March (Unaudited)	
	2014	2015	2016	2016	2017
	(Amount in ₱ millions)				
Non-performing restructured loans	117	215	324	87	331
Performing restructured loans	137	164	207	167	199
Total	**254**	**379**	**531**	**254**	**530**

Foreclosure and Disposal of Assets

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to restructure the payment terms of such loans. The Bank will only foreclose on mortgage securing an NPL if restructuring is not feasible or practical, or if the borrower cannot or will not repay the loan on acceptable terms. The Bank may also consider accepting a payment in kind (or dacion en pago) arrangement. Generally, the Bank will pursue foreclosure options if it concludes that no restructuring option is available after 45 to 60 days of negotiations. Foreclosure procedures may then require 30 to 60 days to complete, particularly considering legal procedures mandated by law.

The Bank's Remedial Management Division (RMD) is responsible for the remedial management, loan restructuring and asset recovery activities of all potentially problematic and defaulted credits regardless of principal size. Once the mortgage over the collateral provided by either retail or corporate borrowers is foreclosed, the Bank's ROPA is turned over to and managed by the Asset Disposition Division (ADD) for disposition while the Asset Management Support Division (AMSD) handles the documentation, administration and preservation requirements of the properties.

The Bank had a net ROPA of ₱ 3.37 billion, ₱ 3.23 billion, ₱ 3.40 billion, ₱ 3.39 billion and ₱ 2.10 billion as at the years ended 31 December 2015, 2016, and 2017 and the three months ended 31 March 2017 and 2018, respectively. On a non-consolidated basis, of the total ROPA as at 31 March 2018, ₱ 21.6 million consisted of the Bank's holdings in shares of stocks and chattels and represented ₱ 707.54 million the Bank's holdings in real property, which comprised 196 properties.

The Bank's valuation reserves on ROPA amounted to ₱ 0.41 billion for the three months ended 31 March 2018 as compared to ₱ 1.10 billion for the three months ended 31 March 2017.

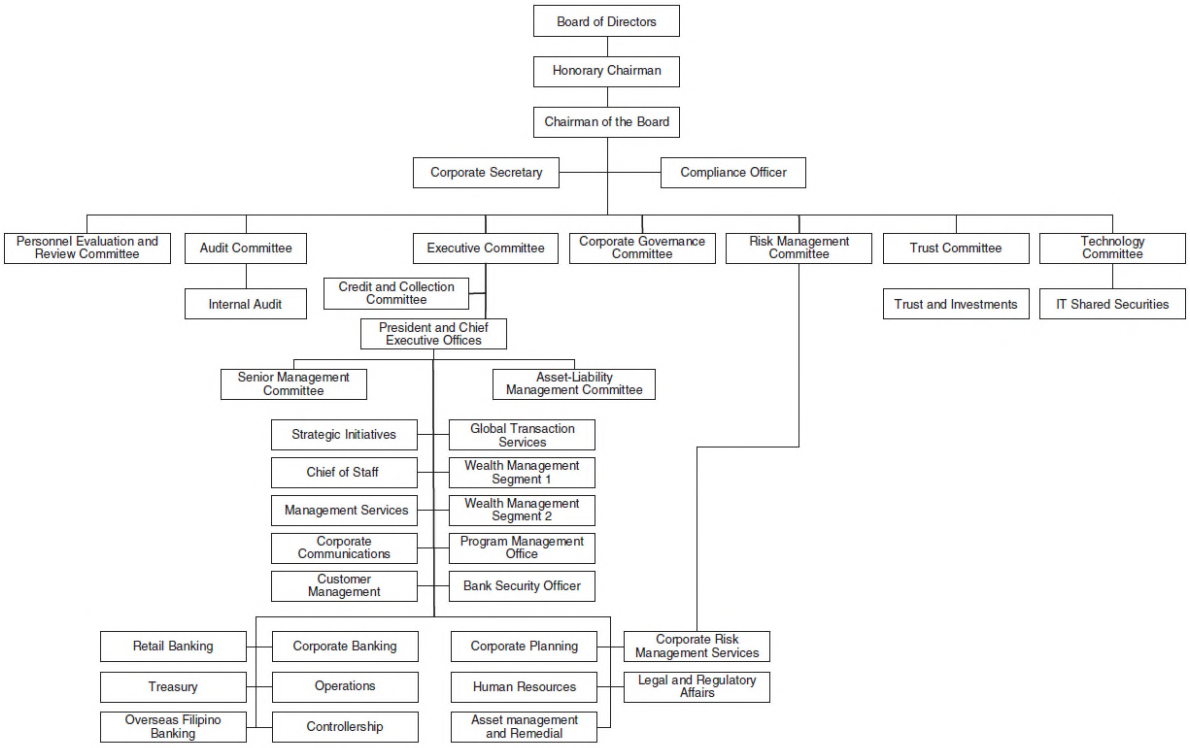
The Bank sells its ROPA through public and private sealed bidding, public auctions and negotiated sales. Installment sales have a term of up to ten years and the Bank requires purchasers to make a forfeitable deposit of at least 10.0% of the sales price for negotiated sale and show money of ₱25,000 during auction sales. The Bank generally charges fixed interest of 9.5% to 13.5% per annum for the remaining term. Title to ROPA remains with the Bank until it receives full payment of the purchase price. Under ROPA sales contracts, if any installment payment falls in arrears, the purchaser is deemed to forfeit all of its prior payments and the Bank treats such prior payments as reductions in the book value of the ROPA.

For the three months ended 31 March 2017 the Bank experienced no defaults with respect to ROPA sold on an installment basis.

For the three months ended 31 March 2018 on a non-consolidated basis, the Bank sold ₱ 0.80 million of ROPA in negotiated sales and ₱ 0.20 million in public sales. For the three months ended 31 March 2018, the Bank sold ₱ 1.00 million of ROPA. The Bank also generates earnings from its ROPA by leasing them on a short-term basis.

Transfer of NPAs

The overall asset quality of the Bank's loan portfolio has changed significantly in recent years as a result of transfers of NPAs, particularly NPLs. On 15 February 2013, RCBC and PAGO signed and consummated an asset sale and purchase agreement, and other related agreements and documents in relation to the sale of ₱ 4.8 billion of the Bank's non-performing assets. The unloading of ₱ 4.8 billion in non-performing assets freed up ₱ 750 million of capital, which RCBC used to lend to small and medium enterprises, consumer and microfinance sectors. PAGO is a special purpose company formed by the IFC, OSK Group-Malaysia and Altus Transaction Services Inc. The transaction was approved by the Board of Directors on 29 October 2012.



Board of Directors and Executive Officers

The names, ages and positions of all the Bank's directors are as follows:

Ms. Helen Y. Dee, 73, is the Bank's Chairperson. Ms. Dee is also the Chairperson/President of Hydee Management and Resource Corporation and HI, Landev Corporation, Hi-Eisai Pharmaceutical Inc., Mapua Information Technology Center, Inc. and Manila Memorial Park. She is also the Vice Chairperson of PMMIC. Among the top companies where she holds a directorship position are Philippine Long Distance Telephone Company, Petroenergy Resources Corp., Sun Life Grepa Financial, Inc., Malayan, and MICO. She graduated from Assumption College with a Bachelor of Science degree in Commerce and completed her Master's in Business Administration at De La Salle University.

Mr. Cesar E. A. Virata, 86, has been a Director since 1995, Corporate Vice Chairman since June 2000 and Senior Adviser from 2007. He is also the Chairman and President of C. Virata and Associates, Inc., Management Consultants. Mr. Virata's roster of companies where he is also a Director and/or Chairman include RSB, RCBC Realty, RCBC Land, Malayan, Business World Publishing Corporation, Belle Corporation, Luisita Industrial Park Corporation, Bankard, and AY Foundation, Inc., among others. Mr. Virata has held important/key positions in the Philippine government, including Prime Minister, Secretary/Minister of Finance, Chairman of the Committee on Finance of the Batasang Pambansa (National Assembly) and member of the Monetary Board. He was also Chairman of the Land Bank of the Philippines. He has served as Governor for the Philippines to the World Bank, the Asian Development Bank and the International Fund for Agriculture Development. He was Chairman of the Development Committee of the World Bank and International Monetary Fund from 1976 to 1980 and Chairman of the Board of Governors of the Asian Development Bank. Prior to his Government positions, he was a Professor and Dean of the College of Business Administration of the University of the Philippines and Principal, SyCip Gorres Velayo and Company, Management Services Division. Mr. Virata graduated from the University of the Philippines with degrees in Mechanical Engineering and Business Administration (Cum Laude). He completed his Master's in Business Administration from the Wharton Graduate School, University of Pennsylvania.

Mr. Gil A. Buenaventura, 65, has been a Director of the Bank since July 2016. He is also President and Chief and Executive Officer. He holds directorship and officership positions in GAB Realty Incorporated, RCBC Capital Corporation, RCBC Leasing and Finance Corporation, RCBC Rental Corporation, Rizal Microbank, RCBC Savings Bank, RCBC Forex Brokers Corporation, and Niyog Property Holdings, Inc., among others. He graduated with a

Bachelor of Arts degree, major in Economics, from the University of San Francisco, California, and with a Master's of Business Administration in Finance from the University of Wisconsin.

Mr. Tze Ching Chan, 60, has been a Director of the Bank since 2011. He is also a Senior Adviser at CVC Capital Partners and The Bank of East Asia, Limited. He holds directorship positions at various companies in Hong Kong and is currently an Honorary Advisory Vice-President at Hong Kong Institute of Bankers. Mr. Chan graduated from the University of Hawaii with a Bachelor's and Master's in Business Administration. He is also a certified public accountant in the United States.

Mr. Richard Gordon Alexander Westlake, 65, has been a Director of the Bank since October 2014. He is the founder and managing director of Westlake Governance Limited, a New Zealand-based globally focused business now regarded as a leading adviser on Corporate Governance. He has over 25 years of experience as a Director and Board Chairman. He is currently the Independent Chairman of the Careerforce Industry Training Organisation Limited, New Zealand, and an Independent Director Dairy Goat Co-operative (NZ) Limited, New Zealand, the world's leading producer and exporter of goat milk infant formula. He holds a Master's degree from Oxford University in England. He is an Accredited Fellow at the Institute of Directors in New Zealand, and an International Fellow of the Mudara-Institute of Directors in Dubai.

Mr. John Law, 67, has been a Director of the Bank since April 2015. He is also currently a Senior Advisor for Greater China for Oliver Wyman; and a Director of Far East Horizon Ltd. in Hong Kong, BNP Paribas (China) Ltd., and Khan Bank in Mongolia. He holds a Bachelor of Science degree, major in Psychology, from the Chung Yuan University in Taiwan; a Master's of Business Administration degree from Indiana University; and a Master's of Arts degree, major in Poetry, from the University of Paris, France.

Mr. Yuh-Shing (Francis) Peng, 45, has been a Director of the Bank since April 2015. He is an Executive Vice President of Cathay United Bank, handling various departments, including the Overseas Management Department. He is also an Executive Vice President of Cathay Financial Holdings, in charge of Strategic Planning Division/Investment Management Department. He holds a Bachelor of Science degree in Control Engineering from the National Chiao Tung University, Taiwan; a Bachelor of Law degree from the National Taiwan University; and a Master of Business Administration/Information Management degree from the National Center University, Taiwan.

Atty. Florentino M. Herrera III, 66, has been a Director of the Bank since August 2016. He is a Founding Partner of the Herrera Teehankee & Cabrera Law Offices and was a former partner at the Angara Abello Concepcion Regala & Cruz Law Offices. He has been engaged in the general practice of law for the past 40 years, specializing in corporate law practice and serves as counsel/corporate secretary for various companies across numerous industries. He holds directorship positions in various companies, including Philippine Airlines, Inc., Trans-Pacific Oriental Holding Company, Inc., Mantrade Development Corporation, and Aeropartners, Inc., among others. He graduated from the University of the Philippines with a Bachelor of Arts degree in Political Science and a Bachelor of Laws degree. He is a member of the Integrated Bar of the Philippines.

Mr. Armando M. Medina, 68, has been an Independent Director of the Bank since 2003. He is a member of various board committees of the Bank, including the Executive Committee, Audit Committee, and Risk Management Committee. He is also an Independent Director of RSB and RCBC Capital. He graduated from De La Salle University with a Bachelor of Arts degree in Commerce and Economics and a Bachelor of Science degree in Commerce with a major in Accounting.

Mr. Juan B. Santos, 79, has been an Independent Director of the Bank since November 2016. He holds independent directorship positions in First Philippine Holdings Corporation, Sun Life Grepa Financial, Inc., Alaska Milk Corporation, and Philippine Investment Management (PHINMA), Inc., among others. He is Chairman and Trustee at Dualtech Training Center Foundation, Inc., a trustee at St. Luke's Medical Center, a member of the Advisory Boards of Coca-Cola Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA) Philippines and East-West Seeds Co., Inc., and a consultant of the Marsman-Drysdale Group of Companies. He holds a Bachelor of Science in Business Administration degree from the Ateneo de Manila University and a degree in Foreign Trade from the Thunderbird School of Management in Arizona, USA.

Amb. Lilia R. Bautista, 82, has been an Independent Director of the Bank since July 2016. She is an Independent Director of RFM Corporation and Transnational Diversified Group, Inc.; a Trustee of the CIBI Foundation and the St. Martin de Porres Charity Hospital; a Director of Philja Development Center; the Dean of the Jose Rizal University Law School; a professor at the Pamantasan ng Lungsod ng Maynila; Professorial Lecturer II at the Philippine Judicial Academy, and Member of the (National Group) Permanent Court of Arbitration. She has held various positions in the public sector, including Chairperson of the World Trade Organization ("WTO") Appellate Body, Chairperson of the SEC, Ex-Officio Member of the AMLC, Acting Secretary of the Department of Trade and Industry, Chairman Ex-Officio of the Board of Investments; Ambassador Extraordinary and Plenipotentiary, Chief of Mission, Class 1; and

Permanent representative to the United Nations Office, WTO, World Health Organization, International Labor Organization, and other international organizations in Geneva, Switzerland. She obtained her Bachelor of Laws and Master's in Business Administration from the University of the Philippines and was conferred a Master of Laws degree by the University of Michigan, USA as a Dewitt Fellow. She is a Member of the Integrated Bar of the Philippines.

Mr. Melito S. Salazar, Jr., 68, has been an Independent Director of the Bank since June 2016. He is also an Independent Director of Concepcion Industrial Corporation, Yanmar Philippines, TECO Philippines 3C Appliances, Inc., Philippines First Insurance Corporation, Sun Life Prosperity GS (Government Securities) Funds, Inc., Sun Life of Canada Prosperity Balanced Fund, Inc., Sun Life of Canada Prosperity Philippine Equity Fund, Inc., and Sun Life of Canada Prosperity Philippine Stock Index Fund; and a Director at the Chamber of Commerce of the Philippine Islands. He held various government positions in the past, including Monetary Board Member of the BSP, Undersecretary at the Department of Trade and Industry, and Vice-Chairman & Governor of the Board of Investments. He received his degrees in BS Business Administration and Master of Business Administration from the University of the Philippines.

Atty. Adelita A. Vergel De Dios, 71, has been an Independent Director of the Bank since June 2016. She is also an Independent Director of RSB and a Member of the Boards of Trustees of Center for Excellence in Governance, Inc., and Center for School Governance, Inc. She served as Commissioner of the Insurance Commission and held directorship and officership positions in various companies. She obtained her Bachelor of Business Administration and Accounting and Bachelor of Laws (Magna Cum Laude) from the University of the East. She is a Certified Public Accountant and a Member of the Integrated Bar of the Philippines.

Mr. Vaughn F. Montes, Ph.D., 66, has been an Independent Director of the Bank since September 2016. He is a Trustee at Parents for Education Foundation ("PAREF"), PAREF Southridge School for Boys where he is also Chairman and President, PAREF Westbridge School for Boys, Foundation for Economic Freedom, Center for Family Advancement; and a Director of Center for Excellence in Governance. He is also a Teaching Fellow-Corporate Governance at the Institute for Corporate Directors. He worked as an Associate Economist at the Wharton Econometric Forecasting Associates in Philadelphia, Pennsylvania, USA. He holds an AB (Bachelor of Arts) Economics degree from the Ateneo de Manila University, an MS (Master of Science) Industrial Economics degree from the Center for Research and Communications (now University of Asia and the Pacific), and a PhD in Business Economics from the Wharton Doctoral Programs, University of Pennsylvania, U.S.A.

Mr. Gabriel S. Claudio, 63, has been an Independent Director of the Bank since July 2016. He has directorships in Ginebra San Miguel, Incorporated, Risk & Opportunities Assessment Management, Conflict Resolution Group Foundation ("CORE"), Toby's Youth Sports Foundation, and the Philippine Amusement and Gaming Corporation ("PAGCOR"). He served as political adviser to former presidents Fidel V. Ramos and Gloria Macapagal-Arroyo and held various positions in government including: Chief of the Presidential Legislative Liaison Office, Cabinet Officer for Regional Development for Eastern Visayas, and Acting Executive Secretary. He also previously served as Chairman of the Board of Trustees of the Metropolitan Water and Sewerage System, Director of the Development Bank of the Philippines, and Director of the Philippine Charity Sweepstakes Office. He holds an AB Communication Arts degree from the Ateneo de Manila University.

The Directors of the Bank are elected at the annual shareholders' meeting to hold office until the next succeeding annual meeting and until their respective successors have been elected and qualified.

None of the Bank's Directors are related to one another or to any of the Bank's executive officers.

Board Committees

The Bank's Board of Directors has created each of the following committees and appointed Board members thereto. Each member of the respective committees named below has been holding office as of the date of this Offering Circular and will serve until his successor shall have been elected and qualified.

Executive Committee

The Executive Committee has the power to act and pass upon such matters as the Board may entrust to it for action in between Board meetings. It may also consider and approve loans and other credit related matters, investments, purchase of stocks, bonds, securities and other commercial papers for the Bank's portfolio.

Audit Committee

The Audit Committee oversees the Bank's financial reporting and control, and internal and external audit functions.

It is responsible for the establishment of the Bank's internal audit department and for the appointment of the Bank's internal auditor and independent external auditors. It is responsible for ensuring that a review of the effectiveness of the Bank's internal controls, including financial, operational, and compliance controls, and risk management, is conducted at least annually.

Trust Committee

The Trust Committee oversees the trust and fiduciary business of the Bank including the power to grant loans and credit accommodations to clients using trust accounts.

Personnel Evaluation and Review Committee

The Personal Evaluation and Review Committee acts as an independent body in the evaluation and review of cases involving dishonesty, fraud, and negligence, violation of any internal Bank policy, rule or procedure committed by an employee of the Bank. The Committee recommends disciplinary measures and penalties to the Board of Directors to be meted out in the case of violations. It has the power to affirm review, revise, or modify any resolution arrived at or action taken by Management against employees with administrative cases.

Corporate Governance Committee

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities. The Committee reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board. It is responsible for ensuring the Board's observance of corporate governance principles and guidelines, including those set forth in the Bank's Manual of Corporate Governance. It also sets compensation for the Board and Executive Officers and makes recommendations to the Board regarding the continuing education of directors, assignments to Board committees, and succession plans for Board members and senior officers.

Related Party Transactions Committee

In order to ensure transparency and fairness for all stakeholders, the Related Party Transactions Committee was constituted by the Board of Directors to review proposed related party transactions for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances.

Risk Oversight Committee

The Risk Oversight Committee oversees the system of limits to discretionary authority that the Board delegates to Management. It ensures that the system remains effective, that limits are observed and that immediate corrective actions are taken whenever limits are breached. It likewise enables the Board to establish the Bank's risk tolerance within a risk-reward framework and ensures that a risk management strategy is in place that adheres to this framework.

Technology Committee

The Technology Committee oversees the Bank's hardware and software purchases, monitors performances of various IT applications of the Bank and the status of various IT projects.

Executive Officers

The names, ages and positions of all the Bank's executive officers are as follows:

Redentor C. Bancod, 53, Senior Executive Vice President, is the Head of the IT Shared Services Group. He was also the Head of IT Shared Services & Operations Group and the concurrent head of Digital Banking Group before assuming his current role. Previously, he was Vice President & General Manager, Central Systems Asia of Sun Life Financial, Asia and Senior Vice President and Chief Technology Officer of Sun Life Of Canada (Philippines) Inc. from October 2003 to 2007; Senior Vice- President & Chief Information Officer of Equitable Bank from July 1996 to September 2003; Assistant Vice President and Head of Applications Development in Far East Bank from October 1993 to June 1996; Assistant Vice President of Regional Operations (Asia Pacific) of Sequel Concepts, Inc. U.S.A/Ayala Systems Technology Inc. from November 1992 to September 1993; Project Manager in Union Bank of Switzerland, NA from April 1988 to November 1992; and Chief Designer and Technical Adviser in Computer Information System Inc. from March 1984 to April 1998. He obtained his Bachelor of Arts degree in Philosophy from the University of the Philippines and is a candidate for a Master of Science degree in Information Management from the Ateneo de Manila University.

John Thomas G. Deveras, 54, Senior Executive Vice President, is the Head of Asset Management & Remedial Group and Strategic Initiatives. Initially, he was the Strategic Initiatives Head when he joined RCBC in 2007 but was appointed as Head of Asset Management & Remedial Group in October 2015. Prior to joining the Bank, he was an Investment Officer at International Finance Corporation. He also worked for PNB Capital and Investment Corporation as President and PNB Corporate Finance as Senior Vice President. He obtained his Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and earned his Master's in Business Administration from the University of Chicago.

Chester Y. Luy, 48, Senior Executive Vice President, is the Head of Treasury Group. Prior to joining RCBC, he served in several leadership roles with various banks : Bank of Singapore as Managing Director/Head of Corporate Finance and Structured Transactions (January 2015 to June 2016), Julius Baer as Managing Director/Senior Advisor and Head of Investment Finance (December 2010 to November 2014), Bank of America/Merrill Lynch as Managing Director/Co-Head of Investment Team for Asia Pacific Region (June 2009 to November 2010), Barclays Capital as Managing Director/Head of High Yield Debt Capital for Asia Pacific Region (April 2002 to June 2009), HSBC Securities as Managing Director/Supervisory Analyst for Credit Risk Analysis Group (March 2001 to April 2002), JP Morgan Chase Securities as Vice President for Credit Risk Analysis Group (June 1995 to March 2001) and Merrill Lynch as Investment Management for Asia Pacific Region (June 1990 to September 1993). Mr. Luy graduated in 1990 from the University of the Philippines with a degree in Bachelor of Science in Business Administration. He obtained his Master's in Business Administration degree major in Finance at J.L. Kellogg Graduate School of Management, Northwestern University in 1995.

Michelangelo R. Aguilar, 61, Executive Vice-President, is the Head of Conglomerates and Global Corporate Banking Group. He was also the Deputy Group Head of Corporate Banking from November to December 2012 and Corporate Banking Segment 1 Head from September to November 2012. Prior to joining the Bank, Mr. Aguilar was Managing Director of Standard Chartered Bank and Head, Origination and Client Coverage and Co-Head, Wholesale Banking (2004 to 2011) and Country Head, Global Markets (1997 to 2004). He obtained his Bachelor of Science degree in Mechanical Engineering from De La Salle University and his Master's in Business Management from the Asian Institute of Management. He is a registered Mechanical Engineer granted by the Board of Mechanical Engineers, Professional Regulatory Commission.

Michael O. de Jesus, 55, Executive Vice-President, is the Head of National Corporate Banking Group. He was also the Deputy Group Head of Corporate Banking from November to December 2012 and the Corporate Banking Segment 2 Head from July 2007 to November 2012. He has a Bachelor of Arts degree in Economics from Union College in Schenectady, New York and a Master's in Business Administration (Finance) from The Wharton School, University of Pennsylvania.

Rommel S. Latinazo, 58, Executive Vice-President, is the President and Chief Executive Officer of RSB. Prior to this, he was the Head of Corporate Banking Segment 1 under the Corporate Banking Group. He joined the Bank in 2000 as First Vice-President. Previously, he held various positions in Solidbank Corporation, Standard Chartered Bank, CityTrust Banking Corporation, First Pacific Capital Corporation and Philamlife Insurance Company. Mr. Latinazo obtained his Bachelor of Science degree in Management from the Ateneo de Manila University and his Master's in Business Administration from the University of the Philippines.

Ana Luisa S. Lim, 58, Filipino, Executive Vice President, is the Head of Operational Risk Management Group. She was formerly the Head of Internal Audit Group prior to assuming her current role. She is also a Director and Corporate Secretary of BEAMExchange, Inc. She joined the Bank in 2000 primarily to implement the risk-based audit approach under a shared-services set-up in conformity with the Bank's strategic risk management initiatives. Ms. Lim obtained her Bachelor of Science degree in Business Administration and Accountancy from the University of the Philippines. She is a Certified Public Accountant, Certified Information Systems Auditor and Certified Internal Auditor.

Edel Mary G. Vegamora, 57, Filipino, Executive Vice President, is the Chief Audit Executive and Head of the Internal Audit Group. She is a Certified Public Accountant and Certified Internal Auditor. She also has a Certification in Risk Management Assurance and is a Fellow in the Institute of Corporate Directors. Ms. Vegamora has over 37 years of professional experience in the areas of risk management process, internal audit and control, banking financial reporting, governance process, banking taxation, banking products, and deals vetting. Her employment background includes being the Chief Financial Officer and Controller of Bank of Commerce. Prior to that, she was the Chief Internal Auditor of Banco de Oro Unibank, Inc. ("BDO") Ms. Vegamora graduated from the University of the East, as Magna Cum Laude, with a degree in BS Business Administration, majoring in Accounting.

Simon Javier A. Calasanz, 38, Filipino, First Senior Vice President, is the President and CEO of RCBC Bankard Services Corporation. Prior to this, he worked for over 13 years at Hongkong Shanghai Banking Corporation where he handled the following roles : Senior Vice President and Head of Contact Center Management and Consumer

Loans (February 2012 to October 2015), Senior Vice President and Head of Cards and Consumer Assets (January 2009 to January 2012), Vice President for Credit Approval Risk Management (May 2007 to January 2009), Officer in Charge ("OIC") for Consumer Credit and Risk (September 2008 to November 2008), Assistant Vice President for Personal Financial Services (September 2006 to April 2007), Manager for Third Party Verification Agencies and Process Management (July 2005 to September 2006), Assistant Manager for Quality Review and Systems Support (December 2004 to July 2005), Manila Credit and Risk Support Manager-Manila Project Team (August 2004 to October 2004), Assistant Manager for Management Information Systems (June 2003 to December 2004), Management Information Credit Analyst (September 2002 to June 2003) and Credit Approval Unit Credit Analyst (April 2002 to September 2002). In addition, he also performed significant roles for the Credit Card Association of the Philippines where he is currently the Special Advisor to the Board, and for the Credit Management Association of the Philippines in which the last position he assumed was as Director in 2008. Mr. Calasanz graduated from De La Salle University with a Bachelor of Science degree in Commerce, major in Marketing Management and Bachelor of Arts degree in Psychology.

George Gilbert G. dela Cuesta, 49, Filipino, First Senior Vice President, is the Group Head of the Legal Affairs Group and the Bank's Corporate Secretary. Previously, he was the General Counsel of Asian Terminals, Inc. and the Vice President for Legal of Mirant (Phils.) Corporation. He held various positions at Hanjin Heavy Industries & Construction Co. Ltd., Follosco Morallos & Herce Law Office, Philippine National Oil Co.-Energy Development Corporation ("PNOC-EDC") and at the Department of Environmental and Natural Resources. He started his career at Quisumbing and Torres. Atty. dela Cuesta graduated from the University of the Philippines in 1988 with a degree in Bachelor of Arts major in Political Science (cum laude). He earned his Law degree from the same university in 1992.

Jonathan C. Diokno, 44, Filipino, First Senior Vice President, is the Head of the Retail Banking Group. He has over 22 years of professional experience in transaction banking, cash management services and overseas Filipino remittance with extensive focus in sales and product management. He served as Head of BDO Remittance Origination, Head of Business Development at BDO Cash Management Services, Head of Sales for Global Relationship Banking (Multinational) Accounts Cash Management Services Citibank, N.A., Business Development Manager Cash Management Services, Standard Chartered Bank and various officer positions in Cash Management at Bank of the Philippine Islands/Citytrust Banking Corporation. Mr. Diokno graduated from the University of the Philippines with a Bachelor of Science major in Business Administration in 1994, He is married with one son.

Lourdes Bernadette M. Ferrer, 59, First Senior Vice-President, is the Head of the Trust and Investments Group. Prior to joining the Bank in September 2000, she held various related positions in Solidbank Corporation and the International Corporate Bank. She graduated from the University of the Philippines with a Bachelor of Science degree in Statistics and likewise obtained her Master's Degree in Business Administration from the same university.

Gerald O. Florentino, 49, Filipino, First Senior Vice President, is the President of RCBC Securities. He held the position of Group Head and Deputy Group Head of Corporate Planning in RCBC prior to assuming his current position. Before joining the Bank, he was Senior Vice President for the Investment Banking Group of Investment and Capital Corporation of the Philippines. He gained his corporate planning expertise from AXA Philippines as Vice President and Head of Strategic Planning, Project Management and Business Development and AXA Way from 2007 to 2009. He also held various positions in United Coconut Planters Bank ("**UCPB**") for seven years during which his last appointment was the Head of Cash Management Products for the Working Capital Products Group. Mr. Florentino graduated from the Loyola University of Chicago, Illinois with a degree in Bachelor of Business Administration majoring in Finance and obtained his Master's in Business Management from the Asian Institute of Management.

John P. Go, 49, First Senior Vice-President, is the Head of Chinese Banking Segment 2. Prior to joining the Bank, Mr. Go was the Vice-President/Chief Finance Officer/Assistant to the Chairman of Liwayway Marketing Corporation (March 2002 to January 2008), Assistant Vice-President of UCPB (August 1996 to February 2002) and Manager/Business Development Department Head of Monte Piedad Savings Bank (January 1996 to July 1996). He holds a Bachelor of Science degree in Marketing from the Philippine School of Business Administration.

Margarita B. Lopez, 50, Filipino, First Senior Vice President, is the Head of Digital Banking Group and the concurrent Head of Operations Group. Prior to joining the Bank, she was connected with Manulife Financial as a member of the Board of Directors and Corporate Vice President/ Asia Head of Digital from October 2014 to March 2016 and the Chief Operations Officer from February 2010 to September 2014. She also held the following positions in various institutions: Chief Operations Officer / Head of Customer Services and Support at Philippine AXA Life (January 2007 to February 2010), Group Head/First Vice President of Electronic Banking Services at Philippine National Bank (January 2005 to December 2006) and Division Head/Vice President of Transactional Banking at UCPB (1996 to 2004). She also held consultancy roles from 1988 to 1996 and was the Analyst Programmer for Infolink assigned at CityTrust from 1987 to 1988. Ms. Lopez started her career as Lecturer at the University of the

Philippines in 1995. She obtained her Bachelor of Computer Science and Master's in Technology Management, Business and Industry in the same university.

Regino V. Magno, 59, Filipino, First Senior Vice President, is the Head of Business Risk Group. He was the Bank's Chief Risk Officer and the Head of Corporate Risk Management Services Group ("**CRISMS**") when he was hired in 2009. Prior to joining the Bank, he was the Chief Risk Officer of Sterling Bank of Asia from August 2007 to December 2008. He was a Market Risk Consultant of Chase Cooper, a London-based consulting firm, Chief Risk Officer of Philippine National Bank for four years, a Consultant of Philippine Deposit Insurance Corporation for one year, and a Senior Risk Manager at the Bank of the Philippine Islands for four years. He also held various positions in CityTrust Banking Corporation. Mr. Magno obtained his Bachelor of Science degree in Industrial Management Engineering from De La Salle University and his Master's in Business Administration from the University of the Philippines.

Remedios M. Maranan, 57, First Senior Vice-President, is the National Service Head of the Retail Banking Group. Ms. Maranan started as a Branch Operations Training Program Trainee in 1989 after which she assumed various positions in branch operations. Her noteworthy stints include being the Regional Operations Head for Metro Manila in December 1998 to April 2004, Business Center Services Division Head in May 2004 to May 2008 and Regional Service Head for Metro Manila in June 2008 to February 2010 and Deputy Group Head of Business Center Services from March 2010 to September 2013. She obtained her Bachelor of Science degree in Commerce majoring in Accounting from the Polytechnic University of the Philippines.

Yasuhiro Matsumoto, 58, First Senior Vice-President, is the Head of Global and Ecozone Segment and Japanese Business Relationship Office. Prior to this, he worked for The Bank of Tokyo-Mitsubishi UFJ, Ltd. since 1984, when the bank was named The Sanwa Bank, Ltd. He has also previously served as a director of the Bank. He obtained his Bachelor of Economics degree from Waseda University, Japan.

Emmanuel T. Narciso, 56, Filipino, First Senior Vice President, is the Group Head of Global Transaction Banking. Prior to joining RCBC, he was the Group Head of Transaction Banking in BDO from June 2011 to August 2015. He was also previously connected with the Hongkong and Shanghai Banking Corporation, where he handled the following roles: Head of Business Banking Division (Philippines), Head of Payments and Cash Management for Vietnam and Philippines. He also worked for Security Bank Corporation as Head of Corporate Transaction Banking Division and Citibank N.A. where his last appointment was as Business Development Head for Global Transaction Services. Mr. Narciso started his career in the banking industry when he was hired by the Bank of the Philippine Islands as an Analyst/Programmer in 1984. He obtained his Bachelor of Arts in Economics from the Ateneo de Manila University in 1984 and finished his Master's in Business Management from the Asian Institute of Management in 1989.

Reynaldo P. Orsolino, 57, First Senior Vice-President, is the Segment Head of Emerging Corporates. He was also the Head of Commercial & Medium Enterprises Division before assuming his current position. Prior to joining the Bank, he served as Senior Vice-President of Philippine National Bank from June 2003 to July 2007, and previously held senior positions at the Planters Development Bank, Asian Banking Corporation, and the Land Bank of the Philippines. He holds a Bachelor of Arts degree in Economics from the University of the Philippines.

Alberto N. Pedrosa, 48, Filipino, First Senior Vice President, in the Segment Head of Investment and Markets Trading. He was also the Investment Portfolio Management Division Head from August 2009 to June 2015. Prior to joining the Bank, he was the Chief Trader for Uniworks, Inc. (April 2009 to July 2009), Vice President and Head of Global Liquid Products Trading for JG Summit Capital Markets (2000 to 2008), Assistant Vice President of Asset, Liquidity Management and Investment Trading for Philippine Commercial International Bank ("PCI Bank") (1995 to 2000) and Senior Assistant Manager and Junior Foreign Exchange Trader for the Bank of the Philippine Islands ("BPI") (1993 to 1995). Mr. Pedrosa started his career when he joined BPI's Officer Training Program in 1993. He completed his Bachelor of Science degree in Commerce majoring in Philosophy at the London School of Economics.

Joseph Colin B. Rodriguez, 50, Filipino, is the President & Chief Executive Officer of RCBC Forex Corporation and Treasurer of RSB. He was also the President & Chief Executive Officer of RCBC Forex Brokers Corporation from April 2015 to August 2016 and Senior Vice President and Treasurer of RSB from August 2011 to March 2015. He also assumed various positions in RCBC as Head of the Foreign Exchange Risk Division and Head of Institutional Relationship Management Division. Before joining RCBC, he spent over two decades at the Treasury division of several foreign/local banks. He was Vice President and Head of the Foreign Exchange and Swap Desk at ING Bank Manila. He was also a Dealer at the Manila office of Banque Indosuez and Assistant Dealer at the Riyadh office of Banque Al Hollandi (ABN AMRO Bank). He also headed the Foreign Exchange and Swaps division of BPI. He graduated from De La Salle University with a double degree in Liberal Arts & Commerce, Major in Marketing and in Political Science.

Bennett Clarence D. Santiago, 48, Filipino, First Senior Vice President, is the Head of the Credit Management Group. He has over 21 years of professional experience in risk management with significant years focused to commercial credit risk management and evaluation as well as enterprise risk management. His experiences include serving as Head, Commercial Banking Credit Evaluation Unit, Risk Management Group of BDO; Risk Head of Citibank N.A.; Chief Compliance Officer, Union Bank of the Philippines; and various officer positions in International Exchange Bank, Globe Telecom Inc., and Hongkong and Shanghai Banking Corporation. He graduated from the University of the Philippines in 1991 with a Bachelor of Science degree in Business Administration. He finished his Master's in Business Administration in 2001 from Ateneo Business School.

Rowena F. Subido, 51, First Senior Vice-President, is the Group Head of Human Resources. She was also the Deputy Group Head of Human Resources before assuming her current position. Prior to joining the Bank, she worked with Citibank, N.A. as Country Lead Human Resources Generalist/Senior Vice-President, prior to which she was Head of Human Resources for the Institutional Clients Group for almost two years. She also worked with CitiFinancial Corporation, the Consumer Finance Division of Citigroup, as Human Resources Head for four years. She also has Human Resource ("HR") experience in retail, distribution and manufacturing industries, having worked for California Clothing Inc. where she was Human Resources Head, International Marketing Corporation as Division Manager for Human Resources & Operations, Tricom Systems (Philippines), Inc. as a Personnel and Administration Officer and Seamark Enterprises, Inc. as a Personnel Officer. Ms. Subido obtained her Bachelor of Science degree majoring in Psychology from the University of Santo Tomas and her Master's in Psychology majoring in Organisational/Industrial Psychology at De La Salle University.

Jamal Ahmad, 52, Canadian, First Senior Vice President, is the Chief Risk Officer and Head of Corporate Risk Management Services Group. He has expertise in Risk Management, Risk Governance, and Project Management, which he gained from over twenty-nine years of professional experience. His experiences include serving as Country Chief Risk Officer and Executive Director of Standard Chartered Bank, Vietnam from May 2015 to June 2017. He was also assigned in the Philippines as Country Chief Risk Officer of the same bank from February 2012 to April 2015. Mr. Ahmad also had previous stints as Head of Operational Risk and Assurance at Bank Permata Indonesia; Head of Operational Risk at Standard Chartered Philippines; Senior Manager of Beaufort Associates in Dubai, UAE; Sales and Project Manager at Datamex Technologies, Canada; Sales and Business Development Manager at Marcus Evans, Canada. He was also a Partner of Industrial Diamond Products of Pakistan, Ltd. He finished his college degrees in Political Science and Journalism in 1987 at the University of Punjab, Pakistan. He completed his Master's Degree in Business Administration at Ateneo De Manila University in 2005 and obtained his Master of Finance at the Stern School of Business, New York University and Hong Kong University of Science and Technology in 2012.

Ma. Christina P. Alvarez, 47, Filipino, Senior Vice President, is the Head of Corporate Planning Group. Prior to assuming this position, she was the OIC of Corporate Planning Group from October to December 2014 and the Financial Planning and Development Division Head from August 2006 to September 2014. She worked with various Banks in the areas of: Financial Planning, Risk Management and Credit/Financial Analysis. Ms. Alvarez graduated from Ateneo de Manila University in 1991 with a Bachelor of Arts degree in Management Economics. She earned her Master's in Business Management degree from the Asian Institute of Management in 1998.

Lalaine I. Bilaos, 49, Filipino, Senior Vice President, is the Head of the Local Corporate Banking Segment — Division II.

Enrique C. Buenaflor, 47, Filipino, Senior Vice President, is the Head of CCM Segment. He joined RCBC in 2010 as Business Development Manager of Global Transaction Banking Group and was later appointed as Head of Business Development Division in 2011. Prior to joining RCBC, he was the Group Head/Vice President of Structure Products for Philippine Bank of Communications (August 2005 to March 2010), Operations Head of Central Verification Unit for CitiFinancial Corporation (July 2004 to July 2005), Sales Head/Assistant Vice President of CCM Services (2001 to 2004) and Product Manager (1999 to 2001) for ABN AMRO Bank. He also worked for Philippine Global Communications Corporation as Senior Manager for Corporate Planning (July 1999 to November 1999) and Capitol Wireless, Inc. as Business Development Director/Marketing and Sales Manager (March 1997 to May 1999). He started his career in Citibank N.A. as Operations Staff in 1992 and then as Management Associate in 1996. Mr. Buenaflor earned his undergraduate degree, Bachelor of Science in Business Management from Ateneo de Manila University and finished his Master's in Business Management at Asian Institute of Management.

Brigitte B. Capina, 57, Senior Vice-President, is the Regional Sales Director of South Metro Manila. Prior to occupying this position, she was the Marketing and Sales Director of Makati Central Business District in 2013, the Regional Sales Manager of South Metro Manila in 2012, Regional Sales Manager of Corporate Headquarters in 2009 and Business Manager for various branches such as RCBC Plaza in 2005, Buendia in 2004 and Makati Avenue in 2003. She obtained her Bachelor of Science degree in Commerce majoring in Accounting from the University of San Agustin, Iloilo City and her Master's in Business Management from the University of the Philippines, Visayas.

Arsenio L. Chua, 57, Senior Vice-President, is the Regional Sales Director of North Metro Manila. Prior to occupying this position, he was the Marketing and Sales Director of Ortigas Central Business District in 2013, Regional Sales Manager of North Metro Manila in 2012, Regional Sales Manager of Central Metro Manila in 2010, District Sales Manager of Southern Metro Manila in 2009 and Business Manager of Caloocan Branch in 2007. He obtained his Bachelor of Science degree in Management and Industrial Engineering from the Mapua Institute of Technology.

Claro Patricio L. Contreras, 57, Senior Vice-President, is the Head of Remedial Management Division. Prior to joining RCBC, he was the Assistant Vice President ("AVP") for Special Accounts Management Services Group at BPI (April 2000 to June 2000), AVP for Credit Management Services Group at Far East Bank and Trust Company ("FEBTC") (January 1997 to March 2000), and Manager for Credit Management Services Group at FEBTC (October 1995 to December 1996). He obtained his Bachelor of Science degree in Commerce majoring in Business Management from San Beda College.

Elizabeth E. Coronel, 49, Senior Vice-President, is the Head of Conglomerates and Strategic Corporates Segment. She joined RCBC in June 2013 as Senior Banker and Head of Conglomerate Banking Division. Previously, she was the Senior Vice President and Chief Operations Officer of Equicom Savings Bank, a position she held for more than five years. She also held various positions in local and foreign banks namely Mizuho Corporate Bank as Vice President and Co-Head of Corporate Finance Department (January 2007 to February 2008), Equitable PCI Bank as Vice President and Head of Corporate Banking Division 4 (1996 to 2007) and Citibank as Relationship Manager of Global Consumer Bank (1993 to 1996). She started her career in the banking industry when she joined RCBC in 1989 as Marketing Assistant for Corporate Banking. Ms. Coronel obtained her Bachelor of Arts degree in Behavioral Science from the University of Santo Tomas and earned MBA units from the Ateneo Graduate School of Business. She also completed the Mizuho-ICS ("MICS") Mini-MBA program at Hitotsubashi University Graduate School of International Corporate Strategy.

Antonio Manuel E. Cruz, Jr., 50, Filipino, Senior Vice President, is the Division 1 Head for Emerging Corporates Segment. He joined the Bank in 2008 and assumed the following positions for Commercial & Small Medium Enterprises under National Corporate Banking: Metro Manila-Luzon Head from December 2012 to September 2013, Makati Lending Center Head from September 2009 to December 2012 and Metro Manila Lending Center Head from January 2008 to September 2009. Before joining RCBC, he was the Ortigas Lending Center Head for Philippine National Bank from December 2005 to December 2007 and the Relationship Manager for Asia United Bank from September 2000 to November 2005. He started his banking career at Solidbank Corporation where he assumed the following positions: Relationship Manager from January 1994 to August 2000, Management Trainee from July 1993 to December 1993, Senior Analyst from January 1993 to June 1993 and Junior Analyst from July 1990 to December 1992. Mr. Cruz obtained his degree in AB Economics from the Ateneo de Manila University in 1990.

Edwin R. Ermita, 55, Filipino, Senior Vice President, is the Bank Security Officer. He was also the Corporate Services Division Head prior to assuming his current position. Previously, Mr. Ermita worked for CTK Incorporated as Consultant, Solid Bank as Security and Safety Department Head and UCPB as Security and Safety Department Head. He started his career in UCPB as Teller in 1983 before moving to Branch Marketing in 1985. Mr. Ermita earned his Bachelor of Science in Management from Ateneo de Manila University. He finished his Master's in Business Administration with specialization in Industrial Security Management from the Philippine Women's University.

Benjamin E. Estacio, 47, Filipino, Senior Vice President, is the Regional Service Head of Mindanao. Prior to assuming this position, he was the District Service Head of Southern Mindanao from May 2004 to March 2011. Mr. Estacio started his career with the Bank as SA Bookkeeper in February 1992 after which he assumed various positions in the branch. He graduated from the University of San Carlos, Cebu City with a Bachelor of Science in Commerce major in Accounting in 1991.

Erico C. Indita, 49, Filipino, Senior Vice President, is the Segment Head of Retail Banking Sales. Mr. Indita was hired as Domestic Remittance Clerk in 1993 after which he assumed various positions in Retail Banking. His noteworthy stints include being the Regional Sales Director of Central Metro Manila (January 2015 to November 2016), District Sales Director of Makati Central Business District (January 2014 to December 2014), Marketing and Sales Director of Chinese Uptown (February 2013 to December 2013), District Sales Manager of Makati Central Business District (January 2011 to February 2013) and Business Manager of Makati Avenue (November 2004 to December 2010). He graduated from San Beda College with a degree in Bachelor of Science in Commerce major in Management in 1989 and finished his Master's in Business Administration at the Ateneo de Manila University in 2007.

Vivien I. Lugo-Macasaet, 58, Senior Vice-President, is the Head of Management Services Division. She was also the Head of the HR Planning and Operations ("**HO**") Division from November 2008 to January 2014. Prior to joining the Bank, she served as Vice-President of Financial Markets Operations at Citibank (May 2006 to June 2008), Senior

Vice-President and Group Head of the International Processing Group at PNB (December 2002 to April 2006) and Vice- President and Business Manager for Institutional Equities at JP Morgan Equities (July 2001 to October 2002). Ms. Lugo-Macasaet graduated from the University of the Philippines with a Bachelor of Arts degree in Economics.

Jonathan Edwin F. Lumain, 56, Filipino, Senior Vice President, is the Bank's Chief Technology Officer. Mr. Lumain joined the Bank in 2001 and held the following IT-related positions: IT Head for Shared Technology Services (January 2008 to May 2016), Application Systems Department Head (August 2003 to December 2007) and Information Management Head (August 2001 to August 2003). Prior to joining RCBC, he was the Department Head of Branch Systems for BPI (November 1999 to July 2001), Department Head of Trust Banking Systems Development for Far East Bank and Trust Company (August 1993 to October 1999), Project Manager for Philippine Commercial International Bank Automation Center (November 1990 to July 1993) and Systems Analyst for Al Ajlani Ent., KSA (May 1985 to October 1990). He started his career in IT when he joined Andres Soriano Corporation as Programmer Trainee in December 1981. Mr. Lumain earned his Bachelor of Science in Business Administration degree from the University of the Philippines in 1981. He obtained his Master of Science in Computer Science from the Ateneo de Manila University in 1997.

Florentino M. Madonza, 47, Senior Vice-President, is the Group Head of Controllership effective October 14, 2014. He was the Deputy Group Head of Controllership from August 2014 to October 2014, General Accounting and Services Division Head from July 2004 to July 2014, General Accounting Department Head from September 2001 to July 2004, Assistant to the Department Head of General Accounting from January 1998 to September 2001, Asset Management and Sundry Section Head from September 1997 to December 1997 and Corporate Disbursement and Payroll Section Head from June 1996 to September 1997. Prior to joining the Bank, he worked for Sycip, Gorres, Velayo and Co. from July 1993 to May 1996 as Auditor. Mr. Madonza completed his Bachelor of Science in Commerce major in Accounting (Cum Laude) from the Araullo University and is a Certified Public Accountant.

Jane N. Maniago, 53, Senior Vice President, is the Group Head of Wealth Management. Prior to this appointment, she was the OIC of Wealth Management Group from December 2015 to January 2016, Segment Head of Wealth Management 1 from September 2014 to November 2015, Division 2 Head of Wealth Management from December 2006 to August 2014 and Relationship Manager for Division 2 from April 2006 to December 2006. She also worked for YGC Corporate Services Inc. as OIC and Marketing Head. Prior to joining the Bank, she worked with Citibank as Cash Product Manager for Global Transaction Services (September 1998 to January 1999), Account Manager (April to August 1998) and Head of Corporate Banking for Chinatown Branch (November 1996 to March 1998) and at Equitable Banking Corporation from May 1986 to October 1996, where her last appointment was the Head of the Research and Special Projects Unit. She obtained her Bachelor of Science degree in Commerce degree majoring in Business Administration and her Bachelor of Arts degree majoring in Behavioral Science from the University of Santo Tomas.

Jose Jayson L. Mendoza, 46, Filipino, Senior Vice President, is the Provincial Division Head for Commercial and SME Banking Segment. He joined the Bank in 2008 as Lending Center Head for SMEs Division-Luzon. Previously, he worked with Maybank Philippines as Head of Retail Loans Management (January 2005 to August 2008), Philippine National Bank as Account Officer (January 2003 to December 2004), Philippine Savings Bank as Account Officer (August 1996 to December 2002) and Islacom as Senior Credit Investigator (May 1994 to July 1996). He started his banking career when he joined Allied Banking Corp. as Credit Investigator in 1993. Mr. Mendoza graduated in 1993 from De La Salle University with a degree of AB Management.

Gerardo G. Miral, 52, Filipino, Senior Vice President, is the Head of Consumer Lending Group of RSB. Prior to his secondment to RSB, he was the Division II Head of Global and Ecozone Segment from April 2011 to January 2016 and Relationship Manager for Japan Ecozone Segment Division II from February 2002 to April 2011. He also assumed various positions in the branch from September 1987 to February 2002. Mr. Miral obtained his Bachelor of Arts major in Economics degree from the University of Sto. Tomas in 1986.

Ma. Cecilia F. Natividad, 43, Senior Vice President, is the Head of the Marketing Group. She has over 21 years of professional experience in the areas of global and multi corridor marketing, strategic planning and classic and digital communications. Her experiences include serving as Head of Marketing, Philippines of The Western Union Company, Marketing Manager of Nestle Philippines, Inc., and Sales Trainor of Ayala Life Insurance, Inc. She graduated from the Ateneo de Manila University in 1995 with a Bachelor of Science degree in Legal Management.

Evelyn Nolasco, 56, Senior Vice President, is the Head of the Asset Disposition Division. Before she joined the Bank, she was the Senior Vice-President and Treasury Head of the ASB Group of Companies in 1995 and Manager for Corporate Finance for SyCip Gorres Velayo & Company ("**SGV**") & Company from 1994 to 1995. She graduated from De La Salle University with a Bachelor of Science degree in Commerce majoring in International Marketing and obtained her Master's degree in Business Management from the Asian Institute of Management.

Matias L. Paloso, 59, Senior Vice President, is the Head of Retail Banking Support Segment. He was formerly the Head of RBG Products, Support & Systems Segment from July 2014 to November 2016 and was seconded to RSB as Deputy Group Head of Retail Banking from April 2012 to July 2014. Prior to this, he was assigned at RCBC as the Regional Sales Manager of North Metro Manila in 2011, Regional Sales Manager of Southern Luzon in 2009, District Sales Manager of South West Luzon in 2002 and Business Center Manager of Camelray Branch in 1999. He obtained his Bachelor of Science degree in Commerce majoring in Accounting from Divine Word College, Tagbilaran City.

Loida C. Papilla, 56, Filipino, Senior Vice President, is the Asset Management Support Division Head. She joined RCBC in 2006 as Operations Support Division Head. She worked for various institutions in the following capacities: Assistant Vice President / Head of Billing and Collections Section in Philippine National Bank ("PNB") (April 2004 to February 2006), Assistant Vice President/OIC in UCPB Securities Inc. (August 1999 to January 2004), Operations Finance Manager in Guoco Securities Inc. (January 1994 to August 1999), Media Consultant in the Office of the Senate President (October 1992 to December 1993), Research Director in Philippine Newsday (June 1989 to June 1992), Research Head in Business Star (June 1987 to June 1989) and Researcher in Business Day Corp. (November 1981 to June 1987). Ms. Papilla graduated from the University of the East in 1981 with a Bachelor of Science in Business Administration major in Accounting. She is also a Certified Public Accountant.

Arsilito A. Pejo, 55, Filipino, Senior Vice President, is the Regional Sales Director of Eastern Visayas since 1 January 2015. Mr. Pejo joined RCBC in 1982. His noteworthy stints include being the Regional Service Head of Visayas from June 2008 to December 2014 and Area Service Head of Visayas from May 2004 to May 2008, Regional Operations Head from October 2002 to April 2004 and Cebu Operations Center Head from June 1998 to September 2002. He obtained his Bachelor of Science degree in Commerce major in Accounting from Colegio de San Jose — Recoletos in 1982.

Honorata V. Po, 57, Filipino, Senior Vice President, is the Regional Sales Director for the South Luzon Regional Office.

Nancy J. Quiogue, 49, Senior Vice-President, is the Regional Service Head for Metro Manila. Prior to assuming her current position in 2010, she was the District Service Head for Metro Manila from May 2004 to April 2010. She also held various positions at the Bank since 1991. Ms. Quiogue graduated from the Philippine School of Business Administration with a Bachelor of Science degree in Business Administration majoring in Accounting.

Elsie S. Ramos, 52, Senior Vice-President, is the Legal Affairs Division Head. She joined the Bank in 2006 and assumed the position of Litigation Department Head. Prior to joining RCBC, she was the Corporate Lawyer and Head of Legal and Corporate Affairs Division for Empire East/Land Holdings (2004 to 2006), Senior Associate and Lawyer-In-Charge of the Docket/Records Section for Ponce Enrile Reyes and Manalastas (2003 to 2004), Senior Associate for Martinez and Mendoza (2001 to 2002), Senior/Junior Associate for Ponce Enrile Reyes and Manalastas (1996 to 2000) and Legal Consultant for Compeer° Y Compafiera (1997 to 1998). She held various positions in the University of the Philippines, Department of History such as Assistant Professor (1994 to 1998), Assistant to the Chairman (1992 to 1993) and Instructor (1988 to 1994). She was also a Part-Time Instructor at the St. Scholastica's College, Manila from 1987 to 1989. She obtained her Bachelor of Arts and Master of Arts degree in History from the University of the Philippines, Diliman. She also finished her Bachelor of Law degree in the same university.

Ismael S. Reyes, 51, Senior Vice President, is the Head of Retail Banking Marketing Segment. He was formerly the National Sales Director when he joined the Bank in 2013. Prior to joining RCBC, he assumed various positions in Philippine Savings Bank as First Vice President/ Head of the Loans Operations Group (October 2012 to October 2013), First Vice President/Branch Banking Group Head (January 2011 to October 2012), Vice President/Deputy Branch Banking Group Head (June 2010 to December 2010) and Vice- President/ Business Development Unit Head (October 2008 to May 2010). He worked for iRemit Inc. where he handled roles such as Division Head for Market Management (January 2004 to September 2008) and Deputy Head for the Global Sales and Marketing Division (August 2001 to December 2003). He also worked with Bank of the Philippine Islands where he was assigned as Operations Manager /Section Head for Funds Transfer Department from 1999 to 2001. His banking career started in Far East Bank in 1987 when he was hired as Staff for International Operations Division. By 1990 he was promoted to a supervisory rank in the same division and as an officer in 1993. He held the position of Department Head in International Operations in 1995 and became a Project Officer for the Remittance Center in 1996. Mr. Reyes earned his Bachelor of Science degree in Commerce major in Economics at the University of Santo Tomas.

Steven Michael T. Reyes, 46, Senior Vice President, is the Head of Commercial Trading and Sales Segment. Previously, he was First Vice President of Global Markets for Australian & New Zealand Banking Group (March 2009 to January 2014), Vice President/Head of Capital Markets for BDO (October 2006 to March 2009), Assistant Vice President /Debt and Interest Rate Trader for Citibank, Singapore (January 2006 to October 2006) and Assistant Vice President/Bonds Trader for Citibank, Manila (January 2002 to December 2005). He also worked for Equitable PCI Bank from July 1999 to December 2001 and PCI Bank from May 1996 to July 1999 and held the following positions: Senior Manager/Head of Capital Markets Desk (July 2000 to December 2001), Manager /Global Fixed Income Proprietary Trader (July 1999 to July 2000), Assistant Manager/Fixed Income Proprietary Bond Trader (July 1997 to July 1999) and Proprietary Bond Trader (May 1996 to July 1997). Mr. Reyes started his banking career when he joined Bank of the Philippine Islands in 1993 as Position Analyst. He completed his Bachelor of Science in Tourism Management at the University of the Philippines in 1993.

Ma. Rosanna M. Rodrigo, 56, Filipino, Senior Vice President, is the Regional Sales Director of North Luzon Region. Ms. Rodrigo joined the Bank in 1992 and assumed the following positions: Marketing and Sales Director of North West Luzon (February 2013 to September 2013), District Sales Manager of North Central Luzon (November 2009 to February 2013), Branch Manager of Tarlac (February 2005 to November 2009), Branch Manager of Hacienda Luisita (July 1997 to January 2005) and Senior Personal Banker of Tarlac (November 1992 to June 1997). She also worked for Producers Bank of the Philippines as Cashier of Tarlac Branch (April 1983 to October 1992), Far East Bank and Trust Co. as New Accounts Clerk of Tarlac Branch (March 1982 to March 1983) and as contractual employee for New Accounts of Tarlac Branch (December 1981 to February 1982). Ms. Rodrigo obtained her Bachelor of Arts degree in Mass Communication major in Broadcasting from the University of the Philippines in 1981.

Raoul V. Santos, 51, Filipino, Senior Vice President, is the Investment Services Division Head. He joined RCBC in 2001 as Portfolio Management Section Head before assuming the Investment Services Department Head position in 2008. He also worked for Metropolitan Bank and Trust Company (2000 to 2001), Solid Bank Corporation (1999 to 2000). PHINMA, Inc. (1991 to 1999) and SGV & Co. (1990 to 1991). Mr. Santos obtained his Bachelor of Science degree in Management of Financial Institutions and Bachelor of Arts degree in Asian Studies from the De La Salle University.

Libertine R. Selirio, 52, Filipino, Senior Vice President, is the Division I Head of Global and Ecozone Segment. Prior to this, she was the Deputy Division Head of JES II from June 2011 to October 2012, Relationship Manager of JES Division II from February 2002 to May 2011, Branch Manager of Dasmarinas from September 2000 to February 2002, Branch Manager of Carmona from July 1998 to September 2000 and Branch Manager of Imus from September 1997 to July 1998. Before joining RCBC, she worked for Pilipinas Bank and assumed the following positions: Account Officer (1993 — 1997), Financial Analysis and Evaluation Section Head (1991 — 1993), Credit Analyst (1989 — 1991) and EDP Teller (1987 — 1989). Ms. Selirio earned her Bachelor of Science in Commerce major in Accounting from St. Scholastica's College in 1986.

John C. So, 47, Senior Vice President, is the Head of Division 1 in Local Corporate Banking Segment. Prior to assuming current position, he was the Head of Kaloocan Division from July 2013 to January 2014 and Head of Chinese Banking Division III from June 2008 to June 2013. From August 2005 to May 2008, he worked for Philippine Bank of Communications in which the last position he assumed was as Vice President/Unit Head of Corporate Banking Group 5. He also worked for Standard Chartered Bank from May 1999 to May 2002, T.A. Bank of the Philippines, Inc. from February 1997 to May 1999 and China Banking Corporation from 1993 to 1997. Mr. So graduated from De La Salle University in 1992 with a degree in Bachelor of Science in Applied Economics and Bachelor of Science in Commerce major in Marketing Management. He obtained his Master's degree in Business Administration from the Ateneo de Manila University.

Ma. Angela V. Tinio, 54, Filipino, Senior Vice President, is the Head of Commercial and Small Medium Enterprises Banking Segment. She has been with the Bank since 2000, holding various positions in Corporate Banking such as VisMin Lending Region Head (December 2010 to June 2013), Metro Manila-Luzon Region Head (April 2006 to November 2010) and Account Management Department Head (July 2000 to April 2006). She worked with Bank of the Philippine Islands as Special Business Unit/Corporate Banking II Manager and Market Head in April 2000. She also held various positions in Far East Bank and Trust Company from June 1997 to April 2000, PDB Leasing and Finance Corporation from February 1996 to April 1997 and Traders Royal Bank from January 1985 to January 1996. Ms. Tinio obtained her Bachelor of Arts degree in Economics from the University of the Philippines and her Master's degree in Business Administration from the De La Salle University.

Gianni Franco D. Tirado, 45, Filipino, Senior Vice President, is the Regional Sales Director of Mindanao Region. Prior to assuming his current role, he was the Marketing and Sales Director of Central Mindanao (February 2013 to September 2013), District Sales Manager of Central Mindanao (March 2009 to February 2013) and Branch Manager for several branches in Mindanao (November 2000 to February 2009). He also assumed the Branch Operations Head of Marbel (February 1998 to October 2000), CI/Appraiser/Loans Clerk (June 1996 to January 1998) and CASA Bookkeeper of Dadiangas (October 1993 to May 1996). Mr. Tirado earned his Bachelor of Science in Commerce major in Accounting degree from the Notre Dame of Dadiangas University in 1993. He also completed his Master's in Education major in Special Education at the Holy Cross of Davao College in 2009.

Juan Gabriel R. Tomas IV, 46, Filipino, Senior Vice President, is the Head of the Customer Service Support Segment, Operations Group. He has over 20 years of professional experience in loans, custody and treasury operations, IT application, development and support, capital markets, customer service, process standardization, automation and re-engineering in the banking industry and consulting firms. His experiences include serving as Head of Capital Markets and Custody, Operations Group, Citibank N.A., Head of Treasury Services Unit, Citibank N.A. Consultant, Deutsche Bank AG Manila, and Consultant, Accenture (formerly Andersen Consulting). Mr. Tomas graduated from Ateneo de Manila University in 1993 with a Bachelor of Science degree in Management. He completed his Master's in Business Management major in Finance in 2001 at the Asian Institute of Management.

Raul Martin J. Uson, 55, Filipino, Senior Vice President, is the Segment Head for Front Line Operations. He was previously connected with Philippine Bank of Communications ("PBC") as Business Centre Operations and Oversight Head. He also assumed the following roles at Citibank N.A. prior to joining PBC in 2012: Operations and Services Head (2007 to 2012), Deputy Senior Country Operations Officer for Citi Indonesia (2006), Credit Operations and Transaction Services Head for Citigroup Business Process Solutions (2004 to 2006), Transaction Services Head (2001 to 2004), Internal Control Head (1999 to 2001), Infrastructure Head (1998 to 2001), Quality Assurance Head (1996 to 1998), Expense Processing Department Head (1993 to 1995), Quality Assurance Officer (1991 to 1993), Trade and Reconcilement Unit Head (1988 to 1991), Cash Officer for Greenhillls Branch (1985 to 1988) and Teller for Makati Branch (1984 to 1985). Mr. Uson graduated from the University of the Philippines Baguio with a degree in AB Economics and Psychology in 1983.

Teodoro Eric D. Valena, Jr., 59, Senior Vice President, is the Applications Architect of IT Shared Services Group. Previously, he was the Retail E-Channels Division Head from January 2015 to September 2015, Finacle Division Head from January 2008 to December 2014, Applications Development & Management Division Head from September 2006 to December 2007 and the Application System Services Department Head from April 2001 to September 2006. Prior to joining the Bank, he held various IT-related positions in several institutions such as Citibank (January 1987 to March 2001), Mancomtech (July 1986 to November 1986), Revenue Information Systems Services Inc. (October 1983 to May 1986), Trans-Union Corp. (June 1983 to October 1983), Mini-Systems Inc. (October 1981 to March 1983) and United Computer Programming Center (April 1981 to October 1981). Mr. Valena started his career as a Programmer/Trainee at Mini-Systems Inc. in 1980. He graduated from the University of the Philippines with a Bachelor of Arts in Social Sciences major in Economics in 1983.

Four of the Directors and most of the executive officers mentioned above have held their positions for at least five years. Executive officers with the rank of Assistant Vice President and above are appointed annually by the Board of Directors in its Organizational Board Meeting right after the shareholders meeting which is held annually every last Monday of June. None of the Bank's executive officers are related to one another or to any of the Bank's Directors. There are no binding contracts or arrangements with regard to the tenure of the Bank's executive officers.

All of the officers identified above are Filipino citizens, except for Mr. Yasuhiro Matsumoto who is a citizen of Japan.

*Subject to BSP approval.

Employees

As of 31 March 2018, the Bank (excluding its subsidiaries) had 4,254 permanent employees, of which 60.60%, were engaged in a professional managerial capacity and classified as "officers." As of 31 March 2018, approximately 52.46% of the Bank's employees (excluding its subsidiaries) are employed at the head office and 47.54% are employed at its branches.

The following table presents the number of employees by category as of the dates indicated:

	As of December 31,			As of March 31,	
	2015	**2016**	**2017**	**2017**	**2018**
Staff	1,660	1,740	1,778	2,509	2,673
Officers	2,388	2,499	2,677	1,790	1,810
Total.....	**4,048**	**4,239**	**4,455**	**4,299**	**4,483**

All of the Bank's non-managerial employees, other than those expressly excluded under the collective bargaining agreement, are represented by an independent union, the RCBC Employees Association. In December 2016, the Bank (not including its subsidiaries) and the RCBC Employees Association agreed on the three-year economic provisions and the five-year non-economic terms of the collective bargaining agreement for the period 1 October 2016 to 30 September 2021.The Bank believes they maintain a strong relationship with the union and does not anticipate any material issues to arise with respect to the re-negotiation of the collective bargaining agreement

The Bank has not suffered any strikes in the past five years, and the management of the Bank believes that its relations with its employees and the union are good.

The Bank continues to invest in its employees through various training programs strategically focused on, customer service, sales planning and management, product knowledge, leadership, risk management, and technical skills.

The aggregate compensation paid to employees by the Bank for the three months ended 31 March 2018 was ₱ 1.58 billion, and for the three months ended 31 March 2017, the aggregate compensation paid to employees was ₱ 1.47 billion.

Principal shareholders

The Bank is a member of YGC. As of 31 March 2018, the Yuchengco family, directly or indirectly, primarily through PMMIC owned 42.45% of the Bank's issued and outstanding shares, while other members of YGC owned or controlled an additional 135,039,847 shares, or approximately 9.65% of the Bank's issued and outstanding shares. As a result, YGC, which is controlled by the Yuchengco family, effectively controls the Bank.

As of 31 March 2018, the Bank had 757 common shareholders of record worldwide.

The following table shows the five principal shareholders of the Bank, as shown in the Bank's share register as of 31 March 2018:

Name of Shareholder	No. of Shares	% of Total
Pan Malayan Management and Investment Corporation (Filipino) ..	594,248,081	42.45%
Cathay Life Insurance Corporation (Non-Filipino)	326,929,297	23.35%
International Finance Corporation (IFC) & IFC Capitalization (Equity) Fund, L.P. (Non-Filipino)	71,151,505	5.08%
RCBC TIG As Trustee of TA#75077-8 FAO RCBC Retirement Plan (Filipino)	56,414,820	4.03%
Sybase Equity Investments Corporation (Filipino)	50,072,060	3.58%
Total(1)	**1,098,815,763**	**78.49%**

RELATED PARTY TRANSACTIONS

The Bank is a member of the YGC. The Yuchengco family, primarily PMMIC, is the largest shareholder and as of 31 March 2018 owned 594,248,081 shares, or approximately 42.45% of the Bank's issued and outstanding shares, while other members of YGC owned or controlled an additional 135,039,847 shares, or approximately 9.65% of the Bank's issued and outstanding shares.

The Bank and its subsidiaries, in the ordinary course of business, engage in transactions with entities within the YGC. The Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institution and to the entire YGC. In this regard, it is the Bank's policy that related party transactions are generally allowed provided that these are conducted at arm's length basis or on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances.

The Bank's Policy on Related Party Transactions adopts an expanded definition of "related parties." Aside from the related parties identified in Bangko Sentral ng Pilipinas ("BSP") Circular No. 895 and those listed under International Accounting Standards 24 ("IAS 24"), the policy also include members of the Advisory Board, consultants of the Bank and in certain instances, non-related parties whose transactions with the Bank or related parties may benefit other related parties or the Bank, respectively, among the Bank's related parties. The Bank maintains a database of related parties which is regularly updated to capture organizational and structural changes within the YGC.

Related Party Transactions ("RPTs") are transactions or dealings with related parties of the Bank, including its trust department, regardless of whether or not a price is charged. These shall include, but not limited, to the following:

- On- and off-balance sheet credit exposures and claims and write-offs;
- Investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements/contracts;
- Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)
- Construction arrangements/contracts;
- Lease arrangements/contracts;
- Trading and derivative transactions;
- Borrowings, commitments, fund transfers and guarantees;
- Sale, purchase or supply of any goods or materials; and
- Establishment of joint venture entities.

RPTs are interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

By policy, transactions with related parties involving amounts of at least Pesos: Ten Million (₱ 10,000,000.00) are considered as material RPTs and are reportable to the BSP.

Employees of the Bank are enjoined to notify the Related Party Transactions Committee ("RPT Committee") of any potential material RPT as soon as they become aware of it. The RPT Committee is composed of at least three members, majority of whom are independent directors including Chairman. The Chairman is furthermore required not to sit as a member of the Audit Committee.

If a transaction is determined to be an RPT, the said transaction and all its relevant details shall be submitted to the RPT Committee in order to aid the latter in evaluating whether the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances.

The RPT shall thereafter be presented to the Board of Directors for approval. In the event that a member of the Board has interest in the transaction under evaluation, the said member shall not participate in the discussion and shall abstain from voting on the approval of the RPT.

Related party transactions approved by the Board are presented to the stockholders for confirmation during the Annual Stockholders Meeting in accordance with the provisions of the Policy on Related Party Transactions and the Bank's Corporate Governance Manual. The Bank's significant transactions with its DOSRI and related parties were confirmed by majority vote of the Bank's stockholders during the last annual stockholders' meeting on 27 June 2016.

For transactions with amounts falling below the materiality threshold, the same are reported to a management committee that reviews and approves the transaction subject to the confirmation of the Board.

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

The Bank's material transactions with its related parties include loans and other credit accommodations. For the three months ended 31 March 2018, the Board of Directors approved loan transactions and other credit accommodations with related parties amounting to ₱ 200,390.00 and USD 150.00 million. Such transactions include DOSRI loans and loans granted to subsidiaries and affiliates.

Under BSP regulations, 70% of the loans granted to each DOSRI must be secured, and should not exceed the amount of his deposit and book value of his investment in the Bank. In the aggregate, loans to DOSRIs, generally, should not exceed the total capital funds or 15% of the total loan portfolio of the Bank and/or any of its lending and nonbanking financial subsidiaries, whichever is lower.

The total amount of DOSRI loans was at ₱ 523.00 million or 0.14% of total loan portfolio of the Bank as of 31 March 2018.

Certain of the Bank's major related-party transactions are described below.

- RCBC and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RCBC Realty. Related rental expense is included as part of Occupancy and Equipment-related account in the statement of income. RCBC's lease contract with RCBC Realty is until 31 December 2016.

- On 1 October 2009, the Bank entered into a joint development agreement with RSB, Malayan Insurance Company, Inc. ("MICO"), Grepalife and Hexagonland, Inc. ("Hexagonland") and with the conformity of Goldpath Properties Development Corporation ("Goldpath"), the parent company of Hexagonland, whereby the Consortium agreed to pool their resources and enter into an unincorporated joint venture ("UJV") arrangement for the construction and development of a high rise, mixed use commercial/office building, now operated by the Group as RSB Corporate Center.

  In 2011, RCBC acquired the rights and interest of Grepalife in the UJV. Also in 2011, RSB was able to acquire the rights and interest of Hexagonland after the latter's liquidation and partial return of capital to Goldpath. RSB, accordingly, contributed the land amounting to ₱ 383 million to the Project.

  On 2 October 2012, the remaining co-venturers executed a memorandum of understanding agreeing in principle to cancel or revoke the UJV, subject to the approval of BSP. As of 31 December 2012, total cash contribution of RCBC, RSB and Bankard to the UJV amounted to ₱ 1.6 billion which is recorded as Construction in Progress.

  On 13 March 2013, through MB Resolution No. 405 dated 7 March 2013, the BSP approved the Parent Company's acquisition of the land contributed to the RSB Corporate Center as well as the rights and interests of its co-venturers. As a result, RCBC paid its co-venturers a total consideration of ₱ 1.2 billion which is inclusive of compensation at the rate of 5.00% per annum computed from the date of the co-venturers' payment of their respective cash contributions until the date of the actual return or payment by RCBC. The total consideration was capitalized and recorded as part of Buildings account. In addition, by virtue of a deed of absolute sale executed between the Bank and RSB on 5 April 2013, the latter transferred its ownership and title to the land where the RSB Corporate Center is situated to RCBC for a selling price of ₱ 529 million.

- On 30 January 2012, the Bank's BOD approved the acquisition of a total of 448,528,296 common shares or around 97.8% of the outstanding capital stock in the First Malayan Leasing and Finance Corp. ("FMLFC") from PMMIC, House of Investments, Inc. ("HI") and other investors. The sale and purchase of FMLFC shares were made in accordance with the three Share Purchase Agreements signed by the contracting parties on 7 February 2012 and was conditioned on, among others, the receipt of approval for the transaction from the BSP, which was received by the Bank on 12 March 2012. After the acquisition, FMLFC was renamed as RCBC Leasing and Finance Corporation (RCBC LFC).

- In 31 July 2013, the Board approved the sale of the Bank's 25% shareholdings in RCBC Realty and 49% shareholdings in RCBC Land, Inc. (RCBC Land) representing the Bank's 34.8% economic interest in RCBC Realty to Pan Malayan Investment and Management Corporation, House of Investments, and

RCBC Land. The transaction was valued at ₱ 4.5 billion. The purpose of the transaction was to comply with Basel III guidelines.

- On 18 October 2013, the Board approved the sale to Philippine Business Bank Trust and Investment Center on behalf of various clients the Bank's and its subsidiary RCBC Capital Corporation's 89% stake in Bankard.

  Bankard's total assets, total liabilities and net assets amounted to ₱ 1.1 billion, ₱ 14 million and ₱ 1.1 billion respectively, as at the date of disposal. As a consideration for the sale of the investment, the Bank received cash amounting to ₱ 225 million and a right over an escrow account amounting to ₱ 870 million established by the buyer investor in settlement of this transaction. Gain on sale recognized related to this transaction of ₱ 44 million is included as part of Gain on sale of equity investments under Miscellaneous Income in the 2013 statement of profit or loss. Moreover, the disposal of Bankard resulted in the reversal and transfer of ₱ 233 million of other reserves recognized in years prior to 2011 directly to surplus.

  On 25 November 2013, the RCBC Board approved the transfer of the merchant acquiring business of Bankard to the Bank. The transfer of the business involved the following activities:

  1. Sale of POS terminals to the Bank
  2. Assignment of merchant contracts in the name of Bankard, Inc. to the Bank
  3. Transfer of the Bank Identification Number (BIN) and Association Licenses from Bankard to the Bank for the processing of acquiring transaction
  4. Transfer of settlement Bank accounts from Bankard, Inc. to the Bank.

  The purpose of the transaction was to consolidate the merchant acquiring business of Bankard with the Bank. This was also intended to support the Bank's efforts to minimize its equity investments in subsidiaries, in preparation for Basel III implementation.

  On 4 December 2013, RCBC Bankard Services Corporation was incorporated as a subsidiary of RCBC Capital Corporation to perform card processing services for the Bank.

- The Group's and certain subsidiaries' retirement funds covered under their defined post-employment benefit plan for qualified employees are administered by the Bank's and RSB's Trust Department in accordance with their respective trust agreements. The Group's retirement fund has transactions directly and indirectly with the Group and the Bank which consist of investment in common shares of the Bank, other securities and debt instruments wherein dividend income and trading gains are earned by the retirement funds. The retirement funds neither provide any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restrictions and liens.

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

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

- The law firm of Angara Abello Concepcion Regala & Cruz (ACCRA) Law Office is among the firms engaged by the Bank to render legal services. Atty. Teodoro Regala, Director, is a Senior Partner of ACCRA Law Office. In 2013, the Company paid ACCRA legal fees that the Company believes to be reasonable for the services provided.

- RCBC and certain subsidiaries engage into trading of investment securities. These transactions are priced similar to transactions with other counterparties. [Note 28.3, Notes to Financial Statements]

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

fund neither provides guarantee or surety for any obligation of the Group nor its investment in its own shares of stock covered by any restriction and liens. [Note 28.4, Notes to Financial Statements]

- RCBC and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RCBC Realty Corporation (RRC). Rental expense incurred by the Group related to this lease arrangements is included as part of Occupancy and Equipment-related account in the statements of profit or loss. RCBC's lease contract with RRC is effective until 31 December 2015. The agreement was renewed for another five years until 31 December 2020. [Note 28.5(a), par.1, Notes to Financial Statements]

- In October 2013, RCBC and RSB entered into a lease agreement covering certain office and parking spaces of RSB Corporate Center at a monthly rental fee of ₱ 7. The monthly rental payments are subject to an escalation rate of 5% annually effective in 2014 up to the 5th year of the lease term. The lease is for a period for five years which shall end in October 2018 and renewable as may be agreed by the parties. [Note 28.5(b), Notes to Financial Statement]

- In December 2013, RBSC entered into a Special Purchase Agreement (the Purchase Agreement) with Bankard, Inc. to transfer Bankard, Inc's credit card servicing operations to RBSC. In accordance with the Purchase Agreement, the BOD of the RCBC approved the assignment of the Service Agreement (the Agreement) previously with Bankard, Inc. to RBSC. Under the Agreement, RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. [Note 28.5 (c), Notes to Financial Statement]

- On 30 August 3016, RCBC's BOD approved the engagement of Philippine Integrated Advertising Agency ("PIAA") for advertising and PR services in the amount of ₱ 45 million. The contract covers product advertising, corporate/institutional advertising, brand advertising, media planning and buying, consumer promotion, printing of collaterals and production of other merchandising materials, public relations, event management and web design.

- On 25 May 2015, RCBC's BOD approved the equity infusion into Rizal Microbank of ₱ 250 million by purchasing additional 2,500,000 common shares of stock with par value of ₱ 100 each. The additional capital infusion into Rizal Microbank was approved by BSP on 30 September 2015. [Note 12.1, par. 1, Notes to Financial Statements]

- On 23 February 2015, RCBC's BOD approved the subscription to ₱ 500 million worth of share of stock of RCBC LFC. As of 31 December 2015, RCBC LFC is yet to file with the SEC the application for increase in its authorized capital stock since the certificate of authority to amend the articles of incorporation was only secured from the BSP on 20 January 2016. In 2016, RCBC LFC has already filed the said application with the SEC, pending approval as of 31 December 2016. Accordingly, as of 31 December 2016, the subscription to ₱ 500 worth of share of stock of RCBC LFC was reclassified to the related investment account. [Note 12.1, par. 1, Notes to Financial Statements]

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

- The Bank has service agreements with RSB and Bankard Inc. (now RBSC) for the in-sourced internal audit services. The Bank provides full-scope audit services to RSB and limited audit services to RBSC, specifically IT audit, operations audit and financial statements review. Also, the Bank has formalized the service agreements for the internal audit services being provided to the remaining five (5) subsidiaries namely: RCBC Capital Corp., RCBC Securities, Inc., RCBC Forex Brokers Corp., Merchant Savings and Loan Association, Inc., RCBC LFC and Niyog Property Holdings, Inc.

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

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

DOSRI Loans and Deposits

In the ordinary course of business, the Bank provides loans to investees and to certain DOSRI. All such loans are on commercial, arm's length terms. The General Banking Law of the Philippines and BSP regulations limit the aggregate amount of loans to DOSRI to 15.0% of a bank's total loan portfolio or 100.0% of a bank's net worth, whichever is lower. In addition, under existing regulations, the amount of individual loans to DOSRI, of which 70.0% must be secured, may not exceed the aggregate amount of their deposits with a bank and book value of their investments in such bank.

The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis. DOSRI loans accounted for approximately 0.14%, 0.15%, 0.18%, 0.23% and 0.44% of the Bank's loan portfolio as of 31 March 2018, 31 December 2017, March 31, 2017, 31 December 2016 and 31 December 2015, respectively.

The Board of Directors of the Bank has the sole authority to approve loans to DOSRI. See the Bank's audited consolidated financial statements and related notes included elsewhere in this Offering Circular for a description of its transactions with related parties.

BANKING REGULATIONS AND SUPERVISION

General

The New Central Banking Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The BSP's Manual of Regulations for Banks (the "Manual") is the principal source of rules and regulations that must be complied with by banks in the Philippines. The Manual contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, treasury and money market operations, and trust and other fiduciary functions. Supplementing the Manual are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The Manual and other Regulations are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government banks and their subsidiaries and affiliates, non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under the Savings and Loan Association Act (Republic Act No. 3779), and pawnshops under the Pawnshop Regulation Act (Presidential Decree No. 114).

PERMITTED ACTIVITIES

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100.0% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings (applicable only to universal banks), or both.

Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage/securities dealership and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank.

REGULATIONS

The Manual and various BSP regulations impose the following restrictions on commercial, universal and savings banks.

Minimum Capitalization

Under BSP Circular No. 854 dated 29 October 2014, universal banks with more than 100 branches, such as the Bank, are required to have capital accounts of at least ₱ 20.0 billion. Commercial banks with more than 100 branches are required to have capital accounts of at least ₱ 15.0 billion, while thrift banks with a head office in Metro Manila and with more than 50 branches are required to have capital accounts of at least ₱ 2.0 billion. These minimum levels of capitalization may be changed by the Monetary Board of the BSP from time to time.

For the purposes of these requirements, the Manual provides that capital shall be the combined capital accounts or net worth and shall refer to the combined total of the unimpaired paid-in capital, surplus (including paid-in surplus), and undivided profits, net of: (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP; (b) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI; (c) total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries; (d) total outstanding loans, other credit accommodations and guarantees granted to related parties that are not at arm's length terms as determined by the appropriate supervising department of the Bangko Sentral; (e) deferred income tax; (f) appraisal increment reserve (revaluation reserve) as a result of appreciation or increase in the book value of bank assets; (g) equity investment of a bank in another bank or enterprise (foreign or domestic) if the other bank or enterprise has a reciprocal equity investment in the investing bank, in which case, the investment of the bank or the reciprocal investment of the other bank or enterprise, whichever is lower; and (h) in the case of rural banks, the Government counterpart equity, except those arising from conversion of arrears under the BSP rehabilitation programme.

Capital Adequacy Requirements

Basel II (the Revised International Convergence of Capital Measurement and Capital Standards) was issued on 26 June 2004 by the Basel Committee on Banking Supervision, an international committee of banking supervisory authorities, to replace Basel I, which was issued in 1988 and amended in 1996. On 2 June 2006, the Monetary Board of the BSP approved the guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II, for implementation on 1 July 2007. On 16 December 2010 and on 13 January 2011, the Basel Committee issued its most recent guidelines on Basel III, a series of amendments to the Basel II framework.

The Basel Committee's package of reforms includes increasing the minimum common equity (or equivalent) requirement from 2% (before the application of regulatory adjustments) to 4.5% (after the application of stricter regulatory adjustments). The total Tier I capital requirement will increase from 4% to 6%. In addition, banks will be required to maintain, in the form of common equity (or its equivalent), a capital conservation buffer of 2.5% to withstand future periods of stress, bringing the total common equity (or equivalent) requirement to 7%, the total Tier 1 requirement to 8.5%, and the total capital requirement (which remains unchanged at 8%, before the additional buffer) to 10.5%.

If there is excess credit growth in any given country resulting in a system-wide buildup of risk, a countercyclical buffer within a range of 0% to 2.5% of common equity (or other fully loss absorbing capital) is to be applied as an extension of the capital conservation buffer. The BSP is set to specify further capital requirements for Systemically Important Financial Institutions ("SIFI's") in due time. These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a SIFI.

The Basel III regulations also include more stringent definitions of Tier 1 capital and Tier 2 capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

The impact of these reforms, if implemented fully per the Basel Committee's guidance, will be to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain. The reforms are expected to be implemented beginning in 1 January 2014.

To align with the international standards, the BSP has adopted the BCBS' eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 issued on 10 January 2011.

On 15 January 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards. The risk-based capital ratio of a bank,

expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10% on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0% and 7.5%, respectively. A capital conversion buffer of 2.5% comprised of CET1 capital, shall also apply.

On 15 February 2013, BSP Circular No. 786 was issued, which prescribed risk disclosure requirements on loss absorbency features of capital instruments. Later, through BSP Memorandum No. M-2013-008, the BSP clarified that such requirements apply in relation to all prospective investors.

BSP Circular No. 826, which was passed on 14 February 2014, amended BSP Circular No. 786 by providing for separate provisions for capital instruments marketed, sold, and/or distributed in the Philippines, and capital investments issued offshore. Through the aforementioned issuances, the BSP aimed to uphold investor protection through enhanced disclosure and transparency through the following requirements imposed upon the banks/quasi-banks for Additional Tier 1 and Tier 2 capital investments issued or to be issued in the Philippines: (i) subjecting investors to a client suitability test, (ii) providing the appropriate risk disclosure statement for the issuance of the capital instruments; (iii) securing written certifications from the investors; and (iv) making these available to the BSP, as may be required. For offshore issuances of Additional Tier 1 and Tier 2 capital investments, the risk disclosure requirements will be governed by the applicable rules and regulations of the country where the instruments were issued. However, for the subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines originally issued overseas, the risk disclosure requirements for issuance in the Philippines will apply.

On 29 October 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Bank under Basel III". Under the Circular, the BSP adopts policy measures for domestic systematically important banks ("D-SIBs"), which are essentially aligned with the documents issued by the BCBS on global systematically important banks and D-SIBs. The policy aims to reduce the probability of failure of D-SIBs by increasing their going-concern loss absorbency and to reduce the extent or impact of failure of D-SIBs on the domestic/real economy. This is an added effort to further strengthen the domestic financial market and to remove the possibility that publicly funded bailouts will be required in the future to save the D-SIBs from insolvency.

The categories for D-SIBs are measured in terms of the domestic bank's or financial institution's size interconnectedness, substitutability or financial institution infrastructure and its complexity. Banks that are identified as D-SIBs are required to have higher loss absorbency ("HLA"). The HLA requirement for D-SIBs is to be met with CET1 capital and is in addition to the capital conservation buffer requirement under BSP Circular No. 781.

D-SIBs shall be initially allocated into two buckets with different level of HLA requirements ranging from 1.5% to 2.5% of risk-weighted assets, depending on their degree of systemic importance. An initial empty bucket shall be added on top of the highest-numbered populated bucket to provide incentives for banks to avoid becoming more systematically important. If the empty bucket becomes populated in the future, a new empty bucket shall be added with a required higher additional loss absorbency level which shall increase in increments of 1.0% of risk-weighted assets.

The magnitude of additional loss absorbency for the higher populated bucket (Score Range of A-B) shall be 2.5% of risk-weighted assets at all times, with the initial empty bucket (Score Range of B-C) at 3.5% of risk-weighted assets. The magnitude of additional loss absorbency for the lower bucket (Cut off point – A) shall be 1.5% of risk-weighted assets. The new regulations on D-SIBs apply on a consolidated basis to all universal and commercial banks, including branches of foreign banks established under Republic Act No. 7721. Submission of data requirements for identification of D-SIBs took effect starting with 2014 data, while compliance with the additional HLA requirements shall be phased-in from 1 January 2017 with full implementation by 1 January 2019.

On 9 June 2015, the BSP issued Circular No. 881, or the "Implementing Guidelines on the Basel III Leverage Ratio Framework." Under the Circular, the BSP sets forth guidelines for a supplementary measure to the risk-based capital requirements in order to control the build-up of leverage in the banking sector. The Basel III leverage ratio is defined as Tier 1 Capital divided by a BSP-prescribed Exposure Measure. On both a solo and consolidated basis, this ratio should not be less than 5% for universal and commercial banks, as well as their subsidiary banks/quasi-banks. The monitoring period for the Leverage Ratio is from 31 December 2014 to 31 December 2016. On 26 June 2017, however, the BSP issued Circular No. 943, which extended the monitoring period for another year or up to 31 December 2017. By 1 January 2018, the leverage ratio shall be a Pillar 1 requirement.

On 3 October 2016, the BSP issued Circular No. 905, or the "Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards." Under the circular, the BSP adopted liquidity standards consistent with the Basel III framework. Banks are now required to maintain, over a 30-calendar day horizon, an adequate level of unencumbered high quality liquid assets (HQLAs) that consist of cash or assets that can be converted into cash at little or no loss of value in private markets, to offset the net cash outflows it could encounter under a liquidity stress scenario. Banks are also required to publicly disclose information related to the Liquidity Coverage Ratio, which is the ratio of HQLAs to total net cash outflows. Mandatory compliance with these minimum requirements shall commence on 1 January 2018 as well.

As a result of these directives, the Bank is exposed to the risk that the BSP may increase applicable capital requirements and other supplementary requirements from time to time. Any incremental capital requirement may adversely impact the Bank's ability to grow its business and may even require the Bank to withdraw from or curtail some of its current business operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favorable to it.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

As of 1 June 2018, BSP Circular No. 1004 (2018), requires commercial banks (including the Bank) to maintain regular reserves of (a) 18.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, (b) 4.0% against long-term negotiable certificate of time deposits ("LTNCDs") under BSP Circular No. 304, and 7.0% against LTNCDs under BSP Circular No. 824, (c) 0% against deposit substitutes evidenced by repo agreements and inter-bank call loans under Sec. 343 of the Manual), and 6.0% against bonds.

Liquidity reserves are no longer required pursuant to BSP Circular No. 753 issued in 2012.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 25% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Pursuant to BSP Circular No. 425 (2004), as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25.0%.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred LCs less margin deposits, and guarantees. Except as specifically provided in the Manual, total credit commitment is determined on a credit risk-weighted basis consistent with existing regulations. Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments.

Among the items excluded from determining the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

On 27 June 2014, the BSP issued BSP Circular No. 839 adopting a prudential real estate stress test (REST) limit for universal, commercial, and thrift banks on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines a macroprudential overlay of a severe test scenario, the principal of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Real estate exposures are those defined in Memorandum No M-2012-046 and include other real estate property of the banks

such as those recorded under Real and Other Properties Acquired and Non-Current Assets Held for Sale. For purposes of the circular, a stress test will be undertaken on a bank's Real Estate Exposure and other real estate property under an assumed write-off rate of 25%.

For universal and commercial banks, the prudential REST limits are 6% of Common Equity Tier 1 (CET 1) capital ratio and 10% of risk-based capital adequacy ratio, on a solo and consolidated basis under the prescribed write-off rate.

Trust Regulation

The Manual contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the MORB. The Bank may, under its Articles, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱ 325.0 million if they are located in Metro Manila, and ₱ 52.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs.

In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs/Expanded FCDU ("EFCDUs"); (c) invest in foreign currency-denominated debt instruments; (d) grant foreign currency loans as may be allowed by the BSP; (e) borrow from other FCDUs/EFCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs; (g) engage in securities lending activities as lender, subject to conditions; (h) engage in repurchase agreements involving foreign currency denominated government securities; (i) purchase foreign currency denominated securities under resale agreements from other banks' FCDU/EFCDU, non-resident financial institutions and OBUs; (j) issue Hybrid Tier 1 ("HT1") capital instruments subject to the requirements under existing regulations; and (k) engage in USD-denominated repurchase agreements with the BSP. In addition to the foregoing, commercial banks and universal banks may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks. Provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) issue LCs for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit, and (iii) make payment to the order of the non-resident exporter; (c) engage in direct purchase of export bills of resident exporters subject to conditions; and (d) invest in foreign currency denominated structured products issued by banks and special purpose vehicles ("SPVs") of high credit quality, subject to the provisions of the MORB. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities, except for USD-denominated repurchase agreements with the BSP, and at least 30.0% of the cover requirement for foreign currency liabilities shall be in the form of liquid assets. The 100.0% asset cover and 30.0% to be held in the form of liquid assets shall be unencumbered, except as otherwise provided in the Manual of Regulations for Foreign Exchange Transactions. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover. In 2017, BSP Circular No. 946 was issued providing that, effective 1 January 2018, the liquid asset cover requirement for FCDU/EFCDU liabilities shall be 0% for universal and commercial banks, and 30.0% for thrift, rural, and cooperative banks.

Lending Policies, Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan, and the proceeds of the loan are to be used for that purpose only. Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for (i) residential loans in an amount not exceeding ₱ 3.5 million; (ii) housing loans extended by or guaranteed under the Government's "National Shelter Programme", which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements; and (iii) subject to certain conditions, loans for house-building

and subdivision development for low- and middle-income families and other housing loans, which shall be allowed a maximum value of 80.0% of the appraised value of the real estate security. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security.

On 29 October 2014, the BSP issued BSP Circular No. 855 regarding guidelines on sound credit risk management practices, including the amendment on provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. According to the BSP, "this principle-based definition creates greater flexibility in accepting a broader range of assets as possible collateral." Under the new rules, however, the maximum collateral value for real estate collateral is set at 60.0% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, "the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed" according to the BSP.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (LTV) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20.0% under current industry practice). Under the enhanced guidelines of the BSP, however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

Mandatory Lending Requirements

BSP regulations currently provide that commercial banks should set aside 25.0% of loanable funds for loans to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries. Loanable funds are defined to include the net increase in a bank's funds from 20 April 2010 in accordance to Subsection Subsections X341.6 and X341.7of the MORB. Alternatively, banks can buy Government securities which proceeds shall be used for lending to the agriculture and agrarian reform sectors, open special deposit accounts with accredited rural financial institutions, provide rediscounting on eligible agriculture, fisheries and agrarian credits, and provide lending for construction and upgrading of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5% of the total amount of its non-compliance and under-compliance.

Republic Act ("Rep. Act") No. 9501 provides that for a period of 10 years from 17 June 2008, all lending institutions shall set aside at least 8.0% for loans to micro and small enterprises and at least 2.0% for medium enterprises of their total loan portfolio based on their balance sheet as of the end of the previous quarter and make it available for lending to such enterprises. Investments in Government securities will not satisfy such obligation.

In addition, branches or agencies of commercial banks located within certain geographical groupings outside Metro Manila must lend at least 75.0% of total deposits, net of required reserves and total cash in vault, at such branches to businesses in their locality. This policy is deemed to be complied with if, in the relevant geographical grouping, the bank's total lending for the financing of agricultural and export industries constitutes 60.0% of its deposits. However, for the purposes of compliance with this requirement, loans granted at the head office or other offices to customers in that area may be assigned to the branch in the geographic area in which the customer is located.

With the enactment of Barangay Micro Business Enterprises ("BMBEs") Act or Rep. Act No. 9178, private banking and other financial institutions were encouraged to lend to BMBEs. Among the incentives of the law is that all loans granted to BMBEs shall be considered as part of alternative compliance to the rules on reservation of funds for the agricultural sector and small- and medium-sized enterprises.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that the subsidiary bank(s) is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Under the Agri-Agra Credit Reform Act, or Rep. Act No. 10000, all banks are required to set aside at least 25.0% of their total loanable funds for agriculture and fisheries credit in general, of which at least ten percent (10.0%) of the loanable funds should be made available for agrarian reform beneficiaries mentioned in the law. Excess compliance in the 10.0% agrarian reform credit may be used to offset a deficiency, if any, in the 15.0% other agricultural credit, in general, but not vice versa.

Qualifications of Directors and Officers

Under the MORB, bank directors and officers must meet certain minimum qualifications primarily being fit and proper for the position of director in matters of but not limited to integrity, probity, competence, education, knowledge and experience. In addition, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience. They must also have completed a special seminar on corporate governance.

On 7 October 2015, the BSP issued Circular No. 887 which imposed the additional requirement of confirmation of the election of directors and senior vice presidents and above or equivalent ranks (i) by the Monetary Board for universal banks and commercial banks, and of Islamic banks, thrift banks, rural banks, and cooperative banks with total assets of at least ₱ 1 billion and (ii) by the SES Committee for Islamic banks, thrift banks, rural banks, and cooperative banks with total assets of less than ₱1billion. Such confirmation is generally not required in cases of re-election of a director in the same bank or banking group or promotion of an officer. The appointment of compliance officers and trust officers, regardless of rank require Monetary Board approval. The election/appointment of such directors or officers shall be deemed confirmed if, after 60 days from receipt of the complete required reports, no advice is received from the BSP.

Certain persons are disqualified from acting as bank directors, including (a) persons who have been convicted of an offence involving moral turpitude or have been declared insolvent or incapacitated; (b) persons who have been removed by the Monetary Board of the BSP; (c) persons who refuse to disclose business interests; (d) resident directors who have been absent for more than half of directors meetings; (e) persons who are delinquent in their obligations; (f) persons who have been found to have wilfully refused to comply with applicable banking laws or regulations; and (g) persons who have been dismissed for cause from any institution under the supervision of the BSP. When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of institutions regulated by the BSP only upon approval of the Governor of the BSP. In addition, except as may be permitted by the Monetary Board of the BSP, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries.

BSP Circular No. 887 further required directors to submit documentary requirements to prove his compliance with the minimum qualifications and the absence of the disqualifications. Failure to submit such documentary requirements shall be construed as failure to establish his qualifications and result in his removal from the board.

Loans to DOSRI

The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI, of which at least 70.0% must be secured, should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's combined capital accounts or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of the aggregate ceiling or of their outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit guarantees and guarantees every week.

Under BSP Circular No. 914, loans, other accommodations and guarantees granted by a bank to its DOSRI for purpose of project finance shall be exempted from the 30.0% unsecured individual ceiling during the project gestation phase, provided that the lending bank shall ensure that standard prudential control in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

Valuation Reserves for Credit Losses Against Loans

As a general rule, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in instalments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment		**Minimum Number of Installments in Arrears**	
Monthly……		3	
Quarterly……..……		1	
Semestral..……		1	
Annually……...		1	

However, when the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of instalments in arrears.

BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the bank's directors, officers, stockholders and their related interests.

In accordance with BSP Circular No. 941 dated 20 January 2017, loans, investments, receivables, or any financial asset, including restructured loans, as a general rule shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, BSP-supervised financial institutions may provide a cure period on a credit product-specific basis, not to exceed 30 calendar days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. Any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays.

The observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness(es), and the BSP-supervised financial institutions are mandated to regularly review the reasonableness of its cure period policy. For microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed 10 calendar days. Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies and shall incorporate well-defined criteria under which credit exposure may be written off. Procedures shall explicitly narrate and document the necessary operational steps and processes to execute the policies. Policies shall define and establish the reasonable period of time within which to write off loans already classified as "loss". BSP regulations allow loans and advances to be written-off as bad debts only if it can be justified to be uncollectible. The board of directors of the bank has discretion as to the frequency of write-offs provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board of the BSP is required to write off loans to the DOSRI.

On 26 January 2003, the SPV Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire non-performing loans, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. Congress passed the SPV Act's implementing rules and regulations on 19 March 2003 and they came into force on 12 April 2003. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act, extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after the amended SPV Act takes effect or until 14 November 2007. The amendatory law also extended the tax exemption and fee privileges of SPVs to those transactions that occur up to 14 May 2008. The extension expired on 14 July 2008.

On 29 October 2014, the BSP issued BSP Circular No. 855 on "Guidelines on Sound Credit Risk Management Practices; Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institutions. The Circular prescribes, among others, guidelines in setting up of allowance for credit losses. Full compliance will be required two years from effectivity of the Circular.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of unclassified loans other than restructured loans less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Opening

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board of the BSP, to use any or all of its branches as outlets for the presentation and/or sale of financial products of its allied undertakings or investment house units.

BSP Circular No. 854 (2014) prescribes the amended minimum capitalization for banks in order to be given authority to establish branches, as follows:

Bank Category	**Minimum Capital (in Billions)**
Universal Banks with more than 100 branches	₱ 20.0
Universal Banks with 11 to 100 branches	₱ 15.0
Universal Banks with up to 10 branches	₱ 6.0
Universal Banks with Head Office only	₱ 3.0
Commercial Banks with more than 100 branches	₱ 15.0
Commercial Banks with 11 to 100 branches	₱ 10.0
Commercial Banks with up to 10 branches	₱ 4.0
Commercial Banks with Head Office only	₱ 2.0
Thrift Banks:	
With Head Office within NCR and with more than 50 branches	₱ 2.0
With Head office in all other areas outside NCR and with more than 50 branches	₱ 0.8
Rural and Cooperative Banks:	
Head Office in NCR and more than 50 branches	₱ 0.2
Head Office in all other areas outside NCR (all cities up to third class municipalities) with more than 50 branches	₱ 0.08
Head Office in all other areas outside NCR (fourth to sixth class municipalities) with more than 50 branches	₱ 0.04

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendible for another six-month period, upon the presentation of justification therefor). Branching policy and guidelines under the MORB were amended by BSP Circular No. 759, issued on 30 May 2012, providing, among others that banks may establish as many branches as its Qualifying Capital can support taking into account any approved but unopened branch/es outstanding at the time of application. Approved branches shall be opened within one year from the date of approval thereof, subject to extension on a case-to-case basis, but in no case to exceed three years, while approved while approved Other Banking Offices ("OBOs") shall be opened within one year from date of approval thereof, which shall not be subject to any extension. Requirements for opening of branches / OBOs were also rationalized.

Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks were allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Parañaque, Pasay, Pasig and Quezon and the

municipality of San Juan, Metro Manila. Note, however, that under BSP Circular No. 728 (2011), the restrictions on establishment of branches have been fully lifted as of 1 July 2014, subject to certain requirements. BSP Circular No. 759 liberalized its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank. It permitted a bank to establish as many branches as its qualifying capital can support in accordance with existing rules. In BSP Circular No. 987 Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

Under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱ 10 billion and thrift banks with capital of at least ₱ 3 billion that have less than 200 branches in restricted areas as of December 2010 were allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach, which started on 1 July 2014 wherein branching in the restricted areas was opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila. Currently, in accordance with BSP Circular No. 932 (2016), as a general rule, all banks, including rural and cooperative banks, are allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

BSP Circular No. 728 provides that under the first phase, second-tier universal and commercial banks with capital accounts of at least ₱10.00 billion and thrift banks with capital of at least ₱3.00 billion that have less than 200 branches in restricted areas as of December 2010 would be allowed to apply and establish branches in these restricted areas until 30 June 2014. The second phase of the current liberalization approach started on 1 July 2014 wherein branching in the restricted areas will be opened up to all banks except rural and cooperative banks that are not allowed to establish branches in Metro Manila.

At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are now allowed to establish branches anywhere in the Philippines, including in cities previously considered as restricted areas.

Branches of microfinance-orientated banks, microfinance-orientated branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under the Barangay Micro Business Enterprises Act of 2002 (R.A. No. 9178) may be established anywhere upon the fulfilment of certain conditions.

Electronic Banking Operations

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (EMV) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. As of 1 January 2017, all cards issued and card-accepting devices should now be EMV-compliant. Prior to full compliance, failure on the part of the BSFI to submit and implement their EMV migration plan shall be subject to additional enforcement actions.

Anti-Money Laundering Law

The Anti-Money Laundering Act ("AMLA") was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱ 0.5 million within one banking day.

Rep. Act. 10167 has expanded the coverage of the Anti-Money Laundering Council ("AMLC") to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)." the high threshold level for covered transactions, the coverage of "covered institutions" and the existing Bank Secrecy Law, the amendments to the AMLA were signed into law on 7 March 2003 under Rep. Act No. 9194. The amendments included the following: (i) lowering the threshold for covered transactions from P4.0 million to P500,000; (ii) authorizing the BSP to inquire or examine any deposit or investment with any banking institution without court order in the course of a periodic or special It also addressed concerns such as examination; and (iii) removing the provision prohibiting the retroactivity of the law.

These institutions are also required to submit a "suspicious" transaction report if there is reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under the Anti-Money Laundering Act.

These transactions are reported to the Anti-Money Laundering Council ("AMLC") created under the law within ten banking days of discovery of that transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to issue freeze orders on any accounts which is suspected as being used for money laundering to be frozen. BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient Board of Directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the Act are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In 2012, two amendments to the Philippines' AML regime came into effect, R.A. No. 10167 and R.A. No. 10168. R.A. No. 10167 amended Section 10 of the AMLA, which require that a petition to the Court of Appeals for an order to freeze accounts be verified. Furthermore, the Court of Appeals has to act on the petition within a period of 24 hours of filing. The affected depositor's remedy, then, is to file a motion to lift, which the Court of Appeals must resolve within the 20 day freeze period.

Section 11 of the AMLA was likewise amended. Section 11 now provides that the AMLC is authorised to examine bank accounts "upon order of any competent court based on an *ex parte* application". However, the same provision sets out additional instances when no court application is required.

Further to the above, an order to examine bank accounts receives the same treatment by the Court of Appeals as an order to freeze accounts. Now, the Court of Appeals is compelled to act on such applications within 24 hours of filing.

Also, R.A. No. 10167 has expanded the coverage of AMLC to enable inquiries into so-called "related accounts," defined as: "funds and sources of which originated from and/or are materially linked to the monetary instrument(s) or property(ies) subject of the freeze order(s)."

R.A. No. 10168 defined the crime of financing of terrorism, in accordance with the state policy to protect life, liberty and property from acts of terrorism. The offense is committed by one who "directly or indirectly, wilfully and without lawful excuse, possesses, provides, collects, or uses property or funds or makes available property, funds or financial services or other related services, by any means, with the unlawful and wilful intention that they should be used or with the knowledge that they are to be used, in full and in part: (a) to carry out or facilitate the commission of any terrorist act; (b) by a terrorist organization, association, or group, or (c) by an individual terrorist." BSP Circular No. 950 (2017) was issued in order to effectively implement this law and the revised IRR of the AMLA that took effect on 7 January 2017. The amendments emphasized the importance of a sound money laundering/terrorism financing risk assessment in banks.

The AMLC plays a central role in the enforcement of this law as the AMLC, *motu propio* or at the request of the Anti-Terrorism Council, is authorized to investigate in order for it to ascertain that there is probable cause that the financing of terrorism is being conducted, planned or facilitated. When the AMLC is satisfied that funds are for terrorist funding, it can issue an *ex parte* order to freeze, without delay, funds which it has "determined to be related to financing of terrorism or acts of terrorism" or, where there is probable cause to believe that funds are to be used in connection with terrorist activities.

BSP Circular No. 706 dated 5 January 2012, is the Updated AML Rules and Regulations ("UARR") that was issued for the purpose of consolidating all existing BSP circulars, circular letters and other issuances related to AML. The UARR applies to all covered institutions supervised and regulated by the BSP including Banks, Offshore banking units, quasi banks, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange dealers, money changers and remittance agents, electronic money issuers including their subsidiaries and affiliates wherever they may be located. In addition to the usual provisions on customer identification/KYC, covered and suspicious transaction reporting and record keeping and retention requirements that are found in the AMLA-RIRR, the UARR emphasizes the incorporation of a sound risk management system to ensure that risks associated with money laundering and terrorist financing are identified, assessed, monitored, mitigated and controlled by covered institutions. A sound risk management system includes adequate and active Board and Senior Management oversight, acceptable policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program ("MLPP"), appropriate monitoring and Management Information System and comprehensive internal controls and audit.

UARR further provides that any violations of existing provisions thereof shall constitute a major violation that may subject the bank, its directors, officers and staff to enforcement actions such as monetary and non-monetary penalties. The enforcement actions shall may be imposed on the basis of the overall assessment of a covered institution's AML compliance system, and if found to be grossly inadequate, such may be considered as unsafe and unsound banking practice that may warrant initiation of prompt corrective action.

BSP Circular No. 495 (2005) as amended by BSP Circular No. 527 (2006) requires all universal and commercial banks to adopt an electronic or manual system of flagging, monitoring and reporting of transactions that qualify as suspicious transactions, regardless of amount or that will raise a "red flag" for purposes of conducting further verification or investigation, or transactions involving amounts below the threshold to facilitate the process of aggregating them for purposes of future reporting of such transactions to the AMLC when their aggregated amounts breach the threshold.

BSP Memorandum No. M2012-017 (April 2012) adopted the AML Risk Rating System ("ARRS"), an internal rating system that aims to understand whether the risk management policies and practices as well as internal controls of Banks and NBFIs to prevent money laundering and terrorist financing are in place, well disseminated and effectively implemented.

ARRS is an effective supervisory tool that undertakes to ensure that all covered institutions as defined under Circular No. 706 are assessed in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on entities exhibiting inefficiencies in Board of Directors and Senior Management oversight and monitoring, inadequacies in their AML framework, weaknesses in internal controls and audit and defective implementation of internal policies and procedures. Under ARRS, each institution is rated based on the following factors: (i) efficient Board of Directors and senior management oversight; (ii) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the Board of Directors; (iii) robust internal controls and audit; and (iv) effective implementation.

Covered institutions are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for at least five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

On 15 February 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA, which now talks about "covered persons, natural or juridical." Additions to the enumeration of covered persons include jewelry dealers for transactions in excess of One Million Pesos (₱ 1,000,000); company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organize funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities.

In 2016, the AMLC approved the Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP Circular No. 950 which further expanded "covered persons" to include company

service providers, people who manage their client's money, security or other assets, manage bank or securities accounts, organize funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

On 19 July 2017, a further amendment to the AMLA was signed into law. Rep. Act No. 10927 amends the AMLA to include casinos under its coverage. The measure sets the threshold amount at ₱ 5,000,000.00, as against the usual ₱ 500,000.00, that would require casinos to report suspicious transactions to the AMLC. This amendment was one of the recommendations of the Financial Action Task Force (FATF), a global anti-money laundering and anti-terrorism watchdog.

Further Liberalization of Foreign Banks

On 15 July 2014, President Benigno Aquino, III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721" ("Rep. Act No. 10641"). Under Rep. Act No. 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorized to do banking business in the Philippines under Rep. Act No. 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under Rep. Act No. 10641 shall have the same branching privileges as domestic banks of the same category.

Among the key amendments of the law were the removal of the ranking requirement for foreign banks and the addition of the applicant banks being widely owned and publicly listed in the country of its origin. In addition, the law now allows authorized foreign banks to participate in the bidding and foreclosure sales of mortgaged real property (including lands) as well as to avail of the enforcement and other proceedings and even take possession (but not title) to such mortgaged property for a period of five years. The foreign bank must, however, transfer its rights over the mortgaged property to a qualified Philippine national within the period of five years. Under Rep. Act No. 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of Rep. Act No. 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of Rep. Act No. 10641 and on 2 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the Manual of Regulations for Banks, accordingly.

In the exercise of the authority to approve entry applications, under Rep. Act No. 10641, the Monetary Board shall adopt such measures as may be necessary to ensure that the control of at least 60.0% of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. Based on BSP Circular No. 858, such measures may include (a) suspension of entry of additional foreign bank subsidiaries and branches; and (b) suspension of license upgrade or conversion to subsidiary of existing foreign bank branches. Other measures may also be implemented by the Monetary Board, provided that such measures (a) shall be consistent with Republic Act No. 7721, as amended by Republic Act No. 10641, and (b) shall consider vested rights and non-impairment of contracts.

Related Party Transactions

On 1 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher degree of standards should be applied to protect the interest of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further,

banks that are part of conglomerates are required to create a Related Party Transactions Committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly required that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

Other Regulations

In October 2013, the BSP amended the rules on valuations of government securities held by banks to reflect actual market rates, with the guideline applying to both benchmark and non-benchmark securities. Under BSP Circular No. 813, the weighted average of done or executed deals shall be used as the basis for valuation. In the absence of weighted average done deals for benchmark bonds, the simple average bids shall be used. In the absence of both weighted done deals and simple average bids for non-benchmark securities, interpolated yields derived from reference rates shall be used.

On 14 August 2015, the BSP issued Circular No. 885 requiring the segregation of customer funds and securities received by banks in the performance of their securities brokering functions. Under the Circular, banks are required to institute adequate risk management systems and controls to ensure protection of customer funds and securities, proper segregation of functions, and prevention of conflict of interest situations that may arise in the conduct of securities brokering activities within the bank. Banks must also make and keep current books and records relating to customer funds and securities and submit monthly reportorial requirements.

The BSP also issued Circular No. 891 on 9 November 2015 amending the sales and marketing guidelines for derivatives under the MORB. Under the Circular, banks must ensure that the financial products (e.g., debt and equity securities, hybrid securities, derivatives, securitization structures, and similar products with substantial investment characteristics) it recommends to a client are appropriate for that client through a client suitability process which involves obtaining client information, classifying a client according to financial sophistication and risk tolerance, and conducting a suitability review. Any informational or promotional presentation must be undertaken only by personnel who are knowledgeable on the products involved and are qualified based on qualification standards established by the bank. Any disclosures regarding its products and services must meet the bank's standards to ensure that its clients understand the nature of the financial transaction. The BSP may bring about timely corrective actions and impose sanctions on the bank and responsible persons, which may include warning, reprimand, suspension, removal, and disqualification of concerned directors, officers, and employees.

On 18 August 2016, the BSP issued Circular No. 920 allowing for the creation of the Personal Management Trust (PMT), which is a living trust arrangement that seeks to meet the estate planning and asset management needs of individuals. The trustor may or may not nominate a third-party beneficiary. It is supposed to serve as a more flexible tool in the management of an individual's financial affairs. Upon the effectivity of the circular, all Living Trust Accounts (LTAs) were discontinued and all those that remained valid were automatically considered as PMT.

On 7 September 2016, the BSP issued Circular No. 924, amending the MORB in view of the clearing of checks via electronic presentment, which shall be implemented by the Philippine Clearing House Corporation (PCHC). On 20 January 2017, the BSP began the electronic clearing of checks. Under this new system, only digital images of the checks and their electronic payment information shall be required to be transmitted to the paying bank. The clearing time was reduced to just one banking day, as against three banking days previously, since no physical delivery of checks will be needed.

On 26 June 2017, the BSP amended the MORB again through Circular No. 963, series of 2017. The issuance instituted governance processes in accordance with the BSP's expectation that banks establish an effective reporting system generation and timely submission of reports. Said reports must be comply with those standards prescribed by the BSP, and those banks that fail to do so (i.e., files an erroneous report, delayed report, or did not submit at all) are meted with certain sanctions that can be aggravated by habitual violations. It further provides that banks have until 31 December 2017 to make the necessary preparations to their systems and processes in order to comply with the new provision, with its full implementation slated for 1 January 2018.

On 3 November 2017, the BSP issued Circular No. 981, amending the guidelines on liquidity risk management and the related amendments to the MORB. Among the highlights of the said changes were the additional guidelines relative to Foreign Currency Management, Intraday Liquidity Management, Intragroup Liquidity Management, Collateral Management, Liquidity Stress Testing, Contingency Funding Plans, Factors to Consider in Developing a Funding Strategy, and Factors to Consider in Developing Cash Flow Projections. Banks shall

have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that they complete a gap analysis of the requirements of the said BSP Circular vis-a-vis their existing risk management systems by 31 March 2018.

On 6 November 2017, in line with BSP's adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body ("PSMB"), which is duly recognized and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.

On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management ("ISRM") of BSFIs in view of the rapidly evolving technology and cyber- threat landscape in which they operate. The amendments highlight the role of the BSFIs' board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognize that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.

On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.

On 1 February 2018, BSP issued Circular No. 992, which set out the framework for banks to offer a basic deposit account to promote account ownership among the unbanked. The minimum key features of the account include: simplified KYC requirements; an opening amount of less than ₱100.00; no minimum maintaining balance; and no dormancy charges. To prevent misuse of the basic deposit account, its maximum balance is set at ₱50,000.00. As an incentive for banks, the basic deposit account is granted a preferential 0.00% reserve requirement which lowers their account maintenance cost.

On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least one percent of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱ 500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least one percent of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorized to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period.

TAXATION

The following discussion is a general description of certain Philippine tax aspects relating to the LTNCDs. It is based on the laws, regulations, and rulings in force as at the date of this Offering Circular, and is subject to any changes in law or interpretations thereof occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the LTNCDs and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities or commodities) may be subject to special rules. Prospective LTNCD Holders are advised to consult their own tax advisers concerning the overall tax consequences of their investment in the LTNCDs.

The tax treatment of a holder of the LTNCDs may vary depending upon such holders' particular situation, and certain holders may be subject to special rules not discussed below. Foreign tax consequences of the ownership and disposition of the LTNCDs are not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the LTNCDs.

INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADIVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF OWNERSHIP AND DISPOSITION OF THE PARTICULAR LTNCDs THEY WILL BE HOLDING, INCLUDING THE APPLICABILITY AND EFFECT OF ANY LOCAL OR FOREIGN TAX LAWS.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

TAXATION OF INTEREST

The Philippine National Internal Revenue Code, as amended by Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion ("TRAIN") (the "Tax Code, as amended") provides that interest income on interest-bearing obligations of Philippine residents, such as the LTNCDs, are Philippine-sourced income subject to Philippine income tax.

The LTNCDs will, under current interpretations of the Tax Code, as amended, be treated as a long-term deposit or investment, particularly, deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and non-resident aliens engaged in trade or business as holders of the LTNCDs will generally be subject to a 20.0% final withholding tax. However, the LTNCDs may qualify as long-term deposits or investments, in which case, pursuant to RR No. 14-2012 and Section A1 of RMC No. 81-2012, and reiterated by RMC No. 7-2015, interest income derived by said individuals shall be exempt from the 20% final withholding tax provided the following characteristics or conditions are present:

1. The depositor or investor is an individual citizen (resident or nonresident), a resident alien or a nonresident alien engaged in trade or business in the Philippines;

2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;

3. The long-term deposits or investments must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;

4. The long-term deposits or investments must be issued by banks only and not by other financial institutions;

5. The long-term deposits or investments must have a maturity period of not less than five (5) years;

6. The long-term deposits or investments must be in denominations of Ten thousand pesos (₱10,000) and other denominations as may be prescribed by the BSP;

7. The long-term deposits or investments should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the following graduated final tax rates on interest income earnings based on the investor's holding period:

    i. Four years to less than five years – 5%

    ii. Three years to less than four years – 12%

    iii. Less than three years – 20%

8. Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

If any of the abovementioned characteristics or conditions is not present, interest income from the LTNCD is subject to a Final Withholding Tax (FWT) at the rate of 20% pursuant to Sections 24(B)(1), 25(A)(2), 27(D)(1) and 28(A)(7)(a) of the Amended Tax Code, as amended.

Under the LTNCD Regulations, while the LTNCDs cannot be pre-terminated at the instance of any LTNCD Holder before the Maturity Date, unless there occurs an event of default, LTNCD Holders may assign their LTNCDs to another holder who is not a prohibited holder and such transfer will not be considered as a pre-termination. The BIR in RR No. 14-2012 and subsequent related issuances clarified that transfers or assignments of the LTNCDs by a LTNCD Holder to another LTNCD Holder is construed as pre-termination solely for tax purposes. Therefore, the transfer of the LTNCD before the fifth (5th) year will be subjected to the graduated withholding tax rates based on the number of years held by the transferor LTNCD Holder.

In view of RR No. 14-2012 as well as succeeding circulars thereon, the Bank will treat a transfer or assignment of the LTNCDs in the secondary market as a pretermination, solely for purposes of determining the applicable rate of withholding tax on the interest earned by the LTNCD Holder thereof, and shall proceed to withhold the appropriate tax on the interest earned thereon.

The tax rates for LTNCD Holders who are not individual citizens, resident individuals, and non-resident individuals engaged in trade or business in the Philippines, are as follows:

- Non-resident alien not engaged in trade or business in the Philippines – 25% final withholding tax pursuant to Section 25 (B) of the Amended Tax Code, as amended.

- Non-resident foreign corporation – 30% final withholding tax pursuant to Section 28 (B) (1) of the Amended Tax Code, as amended.

- Domestic corporation and resident foreign corporation – 20% final withholding tax pursuant to Sections 27 (D) and 28 (A) (7) of the Amended Tax Code, as amended.

The rates applicable to non-resident aliens and foreign corporations may, however, be subject to further reduction by any applicable tax treaty. The tax withheld constitutes a final settlement of Philippine income tax liability with respect to such interest.

The withholding tax rate may be reduced in accordance with applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner provided certain documentary requirements mandated by the BIR are complied with. Most tax treaties to which the Philippines is a party, including the Philippine-United States Tax Treaty, generally provide for a reduced tax rate of 15% in cases where the interest arises in the Philippines and is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates will not apply if the recipient of the interest, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the LTNCDs is effectively connected with such permanent establishment.

If any payments of principal and/or interest in respect of the LTNCDs shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and

penalties thereon (the "Taxes"), then such Taxes shall be for the account of the LTNCD Holder concerned, and if the Bank shall be required by law or regulation (or any change in interpretation or implementation of such law or regulation prevailing) to deduct or withhold such Taxes, then the Bank shall make the necessary withholding or deduction for the account of the LTNCD Holder concerned; provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant LTNCD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar; and provided, further, that documentary stamp tax for the primary issue of the LTNCD and the documentation, if any, shall be for the account of the Bank.

The BIR has issued RMC 8-2014 which applies to individuals, entities, and transactions exempt from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction. No tax ruling has been issued by the BIR which clarifies the operation of BIR Revenue Regulation No. 14-2012 ("RR 14- 2012") vis-à-vis unsecured subordinated debt issuances such as the LTNCDs. While the interest income from the LTNCDs may be considered tax exempt under RR 14- 2012, there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, qualified individual LTNCD Holders would have to comply with RMC 8-2014 to avail of the tax-exempt nature of the LTNCDs in accordance with RR 14-2012. In the event qualified individual LTNCD Holders fail to comply with the requirements under RMC 8-2014, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed to withhold the necessary tax due on the LTNCDs based on current BSP rules.

A trust is generally taxed in the same way as an individual pursuant to the Tax Code which provides that the tax imposed upon individuals shall apply to the income of any kind of property held in trust (except qualifying employee's trust considered tax-exempt). Accordingly, since trusts are, for tax purposes, treated as an individual, interest income earned by trusts may be exempt from the 20% final withholding tax if the conditions on tax exemption of long-term investments discussed above are complied with. This applies, however, only where the trust is irrevocable. In the case of revocable trusts, interest income from investments made by revocable trusts may be exempt from the 20% final withholding tax only upon satisfaction of the following conditions:

(1) The grantor / trustor is an individual;
(2) The instrument in which the revocable trust invests in qualifies as a long-term deposit or investment certificate; and
(3) All of the conditions for tax exemption of interest income from long-term investments discussed above are complied with.

Revenue Memorandum Circular No. 7-2015 reiterates the tax treatment of interest income derived from Long-Term Deposit or Investment Certificates as described in Revenue Regulations No. 14-2012 and clarified in Revenue Memorandum Circular Nos. 77-2012 and 81-2012. For interest income derived by individuals investing in common or individual trust funds or investment management accounts to be exempt from income tax, the following additional characteristics/conditions must all be present:

(1) The investment of the individual investor in the common or individual trust fund or investment management account must be actually held/managed by the bank for at least five years without interruption. The term "bank" refers to banks duly licensed as such by the BSP;
(2) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22(FF) of the Tax Code, as well as the requirements above; and
(3) The common or individual trust or investment management account must hold on to such underlying investment in continuous and uninterrupted period for at least five years.

All sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission to the Registrar by the LTNCD Holder claiming the exemption of reasonable evidence of such exemption to the Registrar.

DOCUMENTARY STAMP TAXES ("DST")

Pursuant to Section 179 the Tax Code, as amended, the original issuance of LTNCDs shall also be subject to the DST of one peso and fifty centavos (₱ 1.50) on each two hundred pesos (₱ 200), or fractional part thereof, of the

issue value of such deposits. The Bank is liable for the payment of the DST on the original issuance of the LTNCDs. Currently, no DST is imposed on the secondary transfer, sale or disposition of the LTNCDs considering that such transfer, sale or disposition will not change the maturity date or remaining period of coverage from the original LTNCDs.

TAXATION ON SALE OR OTHER DISPOSITION OF NOTES

A LTNCD Holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a LTNCD in an amount equal to the difference between the amount realized from such disposition and the value of such holders' interest in the LTNCD. Under Section 32(B)(7)(g) of the 1997 Tax Code, as amended, any gain realized from the sale, exchange, or retirement of bonds, debentures, or other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) will not be subject to income tax. Since the LTNCDs have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the Notes will be exempt from Philippine income tax.

VALUE-ADDED TAX ("VAT") / GROSS RECEIPTS TAX ("GRT")

The gross income from the sale or transfer of the LTNCDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Pursuant to Section 121 of the Amended Tax Code, as amended, banks and non-bank financial intermediaries performing quasi-banking functions are subject to GRT on gross receipts derived from sources within the Philippines at the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less —	5.0%
Maturity period is more than 5 years —	1.0%

(b) On dividends and equity shares and net income of subsidiaries — 0%

(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under Section 32 of the Amended Tax Code, as amended — 7.0%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7.0%

Provided, however, that in case the maturity period referred to in paragraph (a) is shortened by virtue of pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct tax rate shall be applied accordingly.

Pursuant to Section 122 of the Amended Tax Code, as amended, other nonbank financial intermediaries are subject to GRT at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Amended Tax Code, as amended – 5.0%

(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less —	5.0%
Maturity period is more than 5 years —	1.0%

Provided, however, that in case the maturity period is shortened thru pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

ESTATE AND DONOR'S TAX

Beginning 1 January 2018, the transfer of LTNCDs upon the death of an individual LTNCD Holder to his or her heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine estate tax at the rate of 6% based on the value of the decedent's net estate.

Moreover, beginning 1 January 2018, individual and corporate LTNCD Holders, whether or not citizens or residents of the Philippines, who transfer the LTNCDs by way of gift or donation are liable to pay Philippine donors' tax on such transfer at the rate of 6% computed on the basis of the total gifts in excess of ₱ 250,000.00 made during the calendar year.

The estate tax as well as the donor's tax in respect of the LTNCDs shall not be collected (a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the LTNCDs are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the LTNCDs exceeded the value of the consideration may, unless made in the ordinary course of business (i.e., a transaction which is *bona fide*, at arms' length, and free from any donative intent), be deemed a gift and may be subject to donor's taxes.

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (FATCA) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to any non-U.S. financial institution (a "foreign financial institution", or FFI (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the U.S. Internal Revenue Service ("IRS") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA. The Issuer is classified as an FFI.

This new withholding regime was to be phased in beginning 1 July 2014 for payments from sources within the United States and will apply to "foreign passthru payments" no earlier than 1 January 2017. A foreign passthru payment is defined as "any withholdable payment or other payment to the extent attributable to a withholdable payment". According to such definition, a portion of any payment made by an FFI will be treated as a passthru payment, and therefore subject to 30% withholding, in proportion to the ratio of the FFI's US assets to its total assets (the passthru percentage).

FATCA requires a participating FFI/Reporting FFI to withhold 30 percent of any passthru payment to a recalcitrant account holder or to a non-participating FFI. A participating FFI may, subject to what is required, elect not to withhold on passthru payments, and instead be subject to withholding on payments it receives, to the extent those payments are allocable to recalcitrant account holders or nonparticipating FFIs. Section 1471(b)(1)(D)(ii) requires a participating FFI that does not make such an election to withhold on passthru payments it makes to any participating FFI that makes such an election.

This withholding is intended to apply to payments in respect of (i) any securities characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued on or after the "grandfathering date", which is the later of (a) 1 July 2014 and (b) the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any securities characterized as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued. If securities (such as the LTNCDs) are issued before the grandfathering date, and such additional securities of the same series are issued on or after that date, the additional securities may not be treated as grandfathered, which may have negative consequences for the existing securities, including a negative impact on market price.

On 30 November 2014, the Philippines became one of the jurisdictions treated as if it had a Model 1 Intergovernmental Agreement (IGA) in effect (deemed agreed in substance) notwithstanding the fact that the IGA has not yet been signed by the U.S and Philippine governments. However, on 13 July 2015, the said Intergovernmental Agreement ("Model 1 IGA") was finally signed by between the United States of America and the Republic of the Philippines was signed. The Bureau of Internal Revenue deferred reporting of Philippine Participating/Reporting Model 1 FFIs for the year 2015 to the second quarter of 2016 and is supposed set to issue the corresponding Implementing Rules and Regulations for the Model 1 IGA after the Philippine Senate has ratified the same.

Pursuant to the signed IGA, an FFI would not be subject to withholding under FATCA on any payments it receives. Further, an FFI would generally not be required to withhold (any such withholding being "FATCA

Withholding") from payments it makes. A Reporting FI would still be required to report certain information in respect of its account holders and investors to its local tax authority.

Pursuant to the signed Model 1 IGA, the Issuer is a Reporting Model 1 FFI under FATCA. As such, the Issuer and financial institutions through which payments on the LTNCDs are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such LTNCDs is made is not a Participating FFI, a Reporting FI, or otherwise not exempt from or is deemed not compliant with FATCA. This withholding is however suspended under Model 1 IGA, if the Reporting Model 1 FFIs and the Philippine government would comply with their obligations thereunder, particularly on due diligence and reporting.

Should the LTNCDs be in global form and held within clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the LTNCDs by the Issuer, any paying agent, common depositary, or common safekeeper, as the case may be, given that each of the entities in the payment chain beginning with the Issuer and ending with the clearing systems, if applicable, is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the LTNCDs. The documentation expressly contemplates that the LTNCDs will go into definitive form and therefore that they may be taken out of the clearing systems, if applicable. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding.

FATCA is particularly complex and its application is uncertain at this time due to continuing changes. The above description is based in part on regulations, official guidance and Model IGA, all of which are subject to change or may be implemented in a materially different form.

To ensure compliance with FATCA and IRS Circular 230, each taxpayer is hereby notified that: (A) any tax discussion herein is not intended or written to be used, and cannot be used by the taxpayer for the purpose of avoiding U.S. Federal income tax penalties that may be imposed on the taxpayer; (B) any such tax discussion was written to support the promotion or marketing of the transactions or matters addressed herein; and (C) the taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax adviser.

OFFER PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular, the Terms and Conditions included herein, and the related Agreements regarding the offer, maintenance, trade and settlement of the LTNCDs. Prospective LTNCD Holders should read this entire Offering Circular, the Terms and Conditions, and the related Agreements fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular, then the more detailed portions and/or Terms and Conditions, and/or the Agreements, as the case may be, shall at all times prevail.

OFFERING PROCEDURES

Pursuant to the Placement and Selling Agency Agreement and the Registry and Paying Agency Agreement, (the "Agreements") entered into by the Bank with the relevant counterparties, and subject to the terms and conditions of the Master LTNCD, as well as the applicable provisions of the Manual of Regulations, the LTNCDs are being issued by the Bank with (a) HSBC as Sole Lead Arranger and Selling Agent (b) the Bank, RCBC Savings Bank, and MIB as Selling Agents, and (c) Philippine Depository & Trust Corp. as Registrar and Paying Agent.

The following is a summary of the procedures to be adopted among the parties and the prospective LTNCD Holders and is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular and the Agreements.

The Offer Period

During the Offer Period, the Bank, through the Sole Lead Arranger and the Selling Agents, shall solicit subscriptions to the LTNCDs from LTNCD Holders. Prospective LTNCD Holders may purchase the LTNCDs during the Offer Period by submitting fully and duly accomplished Applications to Purchase the LTNCDs (the "Applications"), in triplicate together with all the required attachments and the corresponding payments to the Selling Agents from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or time or without the required attachments will be rejected. Only Applications that are accompanied by payments in cleared funds or covered by acceptable payment instructions and covering the entire application money shall be accepted by the Selling Agents. The Selling Agents shall receive such funds and shall hold it until the end of the Offer Period.

With effect from two Banking Days from the date of an Application (the "Cooling Off Period"), the Applicant/Offeror shall be deemed to have firmly, unequivocally, and irrevocably make the offer to purchase the Fixed Rate LTNCDs in accordance with the Terms and Conditions at the Offered Purchase Amount from the Bank through the Selling Agent on the Issue Date. The Offered Purchase Amount must be accompanied by checks or demand drafts or covered by appropriate debit or other acceptable payment instructions made out to the order of "RCBC LTNCD due 2024 Offering" and must be tendered as a deposit for full payment for the Offer (the Deposit). Subject to the Cooling-Off Period, the Offer, as well as the Deposit tendered hereby, shall not be withdrawable without the prior written consent of the Selling Agent and the Bank.

1) For Applicants who are individuals:
   a. At least one (1) authentic and unaltered photo-bearing plastic identification document issued by an official government authority in accordance with BSP Circular No. 608 (2008) and BSP Circular No. 706 (2011) as may be amended from time to time, or such other ID and documents as may be required by or acceptable to the Registrar and/or Selling Agent concerned;
   b. Two (2) fully executed signature cards in the form attached to the Application; and
   c. Name, present address, date and place of birth, nature of work and source of funds of the beneficial owners or beneficiary of the Applicant / Offeror, if applicable; and
   d. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

2) For corporate and institutional Applicants:
   a. SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant and equivalent organizational or charter documents;
   b. Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the LTNCDs and specifying the authorized signatories;
   c. SEC-certified or Corporate Secretary-certified copy of the latest General Information Sheet which lists the names of directors / trustees / partners, principal, stockholders owning at least 20% of the

outstanding capital stock and primary officers such as the President and Treasurer;

d. Name, present address, date and place of birth, nature of work and source of funds of the beneficial owner or beneficiary of the Applicant / Offeror, if applicable;
e. A list of the natural persons who are the beneficial owners of the parent company of the Applicant/Offeror;
f. IDs of the Applicant's/Offeror's authorized signatories and at least two (2) of the Applicant's/Offeror's directors, including the managing director, as applicable; and such IDs and documentation as the Selling Agent concerned may require for purposes of KYC and AMLA compliance;
g. Two (2) fully executed signature cards duly authenticated by the Corporate Secretary with respect to corporate and institutional investors, in the form attached to the Application.
h. If claiming tax-exempt status, the (i) certified true copy of the original tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue on file with the Applicant as certified by its duly authorized officer, (ii) original duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from or incidental to the non-withholding of the required tax; and (iii) such other documentary requirements as may be required by the Issuer or Selling Agent as proof of the Applicant's tax-exempt status;

3) Documents to be provided by Tax-Exempt Holders:
   a. Certification disclosing the identity/ies of the beneficial owners (not needed if name/s of beneficial owners are already disclosed in the Purchase Advice)
   b. Certified True Copy of valid and applicable BIR Ruling/ Tax Exemption Certification if the Beneficial Owner indicated in the Certification of item 1 is an Institution/Corporate Account.
   c. Letter of undertaking, which states that the investor, in the event the BIR does not issue a new ruling and becomes subject to WHT, will allow RCBC to withhold the taxes due based on the investor's holdings, without the requirement to notify the investor and/or obtain the investor's consent
   d. Copy of the application for tax exemption ruling, with the required attachments, filed before the BIR pursuant to relevant BIR and DOF issuances

4) For entities registered outside the Philippines, similar corporate documents and/or information, as indicated in the preceding Items 2 and 3, whenever applicable, shall be obtained and duly authenticated by the Philippine Consulate/Embassy where said entities are registered.

5) For Non-U.S. Persons who have U.S. indicia U.S. citizenship or lawful permanent resident (green card) status; a U.S. birthplace; a U.S. residence address or a U.S. correspondence address (including a U.S. P.O. box); a U.S. telephone number (regardless of whether such number is the only telephone number associated with the account holder); standing instructions to pay any amounts from the account to an account maintained in the U.S.; an "in care of" address or a "hold mail" address that is the sole address with respect to the Applicant/Offeror; or a power of attorney or signatory authority granted to a person with a U.S. address, citizens, residents, or permanent resident card holders, including US corporations and other juridical entities, the necessary U. S. IRS documentation (e.g. W-8BEN or W-8BEN-EW9 form) if required by the Bank, the Selling Agents, the Registrar or the Paying Agent.

The Selling Agents may require the submission of other documents for purposes of confirming matters in conformity with relevant regulations or policies.

Allocation and Issue of the LTNCDs

Applications to Purchase of the LTNCDs shall be subject to the availability of the LTNCDs and acceptance by the Bank. The Sole Lead Arranger, in consultation with the Bank, reserves the right to accept, reject, scale down, or reallocate any Application.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent. On the Issue Date, the Selling Agents, shall, on behalf of the Bank, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall *ipso facto* convert such Application to Purchase into a purchase agreement between the Bank and the relevant prospective LTNCD Holder.

Upon confirmation by the Bank of acceptance of the relevant Applications and the respective amount of LTNCDs, the Selling Agents shall issue copies of the relevant purchase advice (the "Purchase Advice") to successful prospective LTNCD Holders confirming the acceptances of their offers to purchase the LTNCDs and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies furnished to the Registrar.

The Registrar shall rely solely on the Consolidated Sales Report in its preparation of the Registry and the issuance of the Registry Confirmation for each LTNCD Holder. The Registrar shall distribute the Registry Confirmations directly to the LTNCD Holders in accordance with the terms of the Registry and Paying Agency Agreement.

Transactions in the Secondary Market

All secondary trading of the LTNCDs shall be coursed through the trading facilities of PDEx, subject to the payment by the LTNCD Holder of applicable fees in connection with trading on PDEx and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar, and PDEx, including but not limited to the guidelines on minimum trading lots, minimum holding denominations and record dates.

The Bank will be listing the LTNCDs in PDEx for secondary market trading. Upon listing of the LTNCDs with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of the LTNCDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. Transactions on the LTNCDs on PDEx will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the LTNCDs as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the LTNCDs as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining LTNCD Holder of the LTNCDs will hold less than the minimum denomination as prescribed or approved by the BSP.

No transfers will be effected during the period between the Record Date (two (2) business days prior to the relevant Interest Payment Date), and the Banking Day immediately prior to an Interest Payment Date or Principal Payment Date, inclusive.

The Registrar shall register any transfer of the LTNCDs upon presentation to it of the following documents in form and substance acceptable to it:

- the relevant Trade-Related Transfer Form or Non-Trade Related Transfer Form, as the case may be, duly accomplished by the transferor LTNCD Holder and endorsed by the relevant Trading Participant, substantially in the form agreed upon between the Bank and the Registrar;

- in the case of a new LTNCD Holder:

    - duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar, substantially in the form set out in Annex F of the Registry and Paying Agency Agreement;
    - proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking, substantially in the form set out in Annex D of the Registry and Paying Agency Agreement;
    - the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the LTNCDs in its favor;
    - the Purchase Advice
    - the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and

- upon listing of the LTNCDs in PDEx, such other applicable documents or instructions to effect settlement of PDEx trades pursuant to the trading and settlement rules of PDEx in effect at that time.

- such other documents that may be required by the Registrar; including but not limited to those documents for Non-Trade Transactions

Transfers of the LTNCDs made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Payment of Interest and Principal

The Paying Agent shall pay, or cause to be paid, on behalf of the Issuer on or before 12:00 noon on each Payment Date the total amounts due in respect of the LTNCDs through a direct credit (via RTGS) of the proper amounts, net of taxes and fees (if any) to the Cash settlement banks of the LTNCD Holders, for onward remittance to the relevant Cash Settlement Account of the LTNCD Holders with the Cash settlement bank no later than 3:00 p.m. on each Payment Date.

Crediting of amounts in respect of the LTNCDs is at all times subject to the settlement procedures of RTGS and the internal clearing policies and procedures of each beneficiary/receiving bank.

Schedule of Registry Fees

The Registry shall be entitled to charge the LTNCD Holders and/or their counterparties fees as the Registry shall prescribe in line with the services that the Registry shall perform such as, but not limited to, the opening and maintaining of accounts, the maintenance of the records of the LTNCD Holders in the Registry Book, the issuance, cancellation and replacement of any Registry Confirmation. The Registry will charge the following fees to LTNCD Holders:

Fees Payable by Holders or Requesting Party**

1.	**Account Opening Fees (Secondary Market)**	₱ 100.00

One-time charge per account & payable by Transferee who has no existing account with the registry upon submission of request

2.	**Transfer Fee – Trade transactions**	₱ 100.00 per side per transfer
3.	**Transfer Fee – Non-trade transactions**	₱ 100.00 per side per transfer for intermediated transfers (payable by the transferor or requesting party upon submission of request; e.g. change of custodian bank – no change of beneficial ownership ₱ 500.00 per side, plus legal cost, for non-intermediated transfers (e.g. inheritance, Donation, Pledge)

Report Generation

1.	**Specialized reports without back-up file restoration**	₱ 20.00 per page, plus (+) ₱100.00 per request
2.	**Specialized reports requiring back-up file restoration**	₱ 20.00 per page, plus (+) ₱300.00 per request
3.	**PDTC Certification of Holdings**	₱ 200.00 per certification
4.	**Request for monthly statements of account** (in addition to the quarterly statement already issued free)	₱ 50.00 per statement
5.	**Request for replacement of Registry Confirmation Advice**	₱ 50.00 per advice

**All fees for the Account of the Holder / Requesting Party are payable upon submission of request. Fees are subject to change.

INDEX TO FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2017, 2016 AND 2015 AND FOR THE YEARS ENDED 31 DECEMBER 2017, 2016, AND 2015 ACCOMPANIED BY AUDITORS' REPORT

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (SEC FORM 17-Q) AS OF MARCH 31, 2018 AND 2017, AND FOR THE THREE MONTHS ENDED AS OF MARCH 31, 2018 AND 2017 FILED TO THE SEC