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

**₱100,000,000,000 BOND PROGRAMME**  
**₱69,500,000,000 PROGRAMME LIMIT**

Under this ₱100,000,000,000 Bond Programme, Rizal Commercial Banking Corporation (“**RCBC**”, the “**Bank**” or the “**Issuer**”) may offer from time to time, in one or more series of tranches, up to ₱69,500,000,000 in aggregate principal amount of Bonds (the “Programme Limit”), pursuant to BSP Circular No. 1010 (Series of 2018), and any other circulars and regulations as may be relevant for the transaction, as amended from time to time. See “*Offering Circular Summary – The Programme.*”

Only such Bonds issued within the Programme Limit will be governed by the Programme Agreement and the General Terms and Conditions.

The Bonds (as defined below and which includes Commercial Papers) will constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank. The Bonds will at all times rank *pari passu* and without any preference among themselves and at least equally with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, other than obligations mandatorily preferred by law. See “*General Terms and Conditions – Status and Subordination.*” The Bonds can be issued, without limitation, with a fixed or floating interest rate, as zero-coupon bonds, or as green, social, or sustainable bonds.

The Philippines recently cemented its position as an Investment Grade credit. The Bank is rated Baa3 by Moody’s Investor Services (Baseline Credit Assessment). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. The Bonds to be issued under the Programme may or may not be rated and where any issuance of Bonds under the Programme are proposed to be rated, such rating(s) shall be set out in the applicable Pricing Supplement. **INVESTING IN THE BONDS ENTAILS CERTAIN RISKS. SEE “INVESTMENT CONSIDERATIONS” BEGINNING ON PAGE 15 FOR A DISCUSSION OF CERTAIN FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS.**

The Bonds will be deposited with Development Bank of the Philippines – Trust Banking Group, which has been appointed Public Trustee by the Bank. The Bonds shall be maintained in scripless and electronic form with the Registrar through the Registry and registered in the name of the Bondholders. Registry Confirmations will be issued in favor of the Bondholders in accordance with the Regulations and the Registry and Paying Agency Agreement and will be serially numbered. Once lodged, the Bonds will be eligible for electronic book-entry transfers in the Registry without the issuance of other evidences of the Bonds, and any sale, transfer, or conveyance of the Bonds shall be coursed through an accredited exchange. The Bonds will be enrolled or listed in the trading platform of the Philippine Dealing & Exchange Corp. (“PDEX”) for secondary market trading pursuant to the Bangko Sentral ng Pilipinas (“BSP”) rules. Upon enrollment or listing of the Bonds in the 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 BONDS ARE NOT A DEPOSIT AND NOT INSURED BY THE PHILIPPINE DEPOSIT INSURANCE CORPORATION.**

To the fullest extent permitted by law, the Joint Arrangers, Selling Agents, and Lead Arranger/s and Bookrunner/s appointed in relation to each issuance under the Programme do not accept any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by the Joint Arrangers, Selling Agents, and Lead Arranger/s and Bookrunner/s appointed in relation to each issuance under the Programme or on their behalf in connection with the Bank or the issue and offering of the Bonds. The Joint Arrangers, Selling Agents, and Lead Arranger/s and Bookrunner/s appointed in relation to each issuance under the Programme (and their respective affiliates) accordingly disclaim all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Offering Circular or any such statement.

**JOINT ARRANGERS**



**HSBC**



**RCBC Capital Corporation**

**INITIAL SELLING AGENTS**



**HSBC**



**RCBC**

The date of this Offering Circular is 17 March 2020.

For any concerns you may contact us at (02) 8877-RCBC (8877-7222) or [customercontact@rcbc.com](mailto:customercontact@rcbc.com). RCBC is supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 8708-7087 and email address [consumeraffairs@bsp.gov.ph](mailto:consumeraffairs@bsp.gov.ph).

The Bank confirms that (i) this Offering Circular contains, and at the date of publication or issue contained, all material information with respect to the Bank, the Group, the Programme and the Contracts (including all information which is necessary to enable investors and their professional advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank, the Group and the rights attaching to the relevant Series or Tranche of Bonds), (ii) this Offering Circular does not contain an untrue statement of material fact or omit to state a material fact that is necessary in order to make the statements made in this Offering Circular, in the light of the circumstances under which they were made, not misleading and there is no other fact or matter omitted from this Offering Circular which was or is necessary to enable investors and their professional advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank or the Group and of the rights attaching to the relevant Series or Tranche of Bonds; (iii) the other financial data set forth in this Offering Circular relating to the Bank is accurately presented and prepared on a basis consistent with the consolidated financial statements and books and records of the Group; that the Bank and each member of the Group 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 this Offering Circular; the Bank and each Group member is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in this Offering Circular; (iv) all statistical and market related data included in this Offering Circular is based on or derived from sources that the Bank reasonably believes to be reliable and accurate in all material respects, has been accurately extracted from such source and the Bank has obtained the written consent to the use of such data from such sources to the extent required; (v) the statements of intention, opinion, belief or expectation contained in this Offering Circular and the Marketing Materials are honestly and reasonably made or held; and (vi) all reasonable enquiries have been made to ascertain such facts and to verify the accuracy of all such statements.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of Bonds, 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”) and RCBC Capital Corporation (the “Joint Arrangers”), and the Development Bank of the Philippines – Trust Banking Group (the “Trustee”) or any person affiliated with the Joint Arrangers or the Trustee 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, the Programme, or the Bonds 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, the Joint Arrangers, or the Trustee.

Except in the case of the Bank and RCBC Capital Corporation as Joint Arranger, each of The Hongkong and Shanghai Banking Corporation Limited and the Trustee, is a third party that has no subsidiary or affiliate or any other relationship with the Bank that would undermine its independence.

The Joint Arrangers, Selling Agents, and Lead Arranger/s and Bookrunner/s appointed in relation to each issuance under the Programme (and their respective affiliates), and the Trustee have not independently verified the information contained or incorporated by reference herein. Accordingly, no representation or warranty, expressed or implied, is made and no responsibility or liability is accepted by the Joint Arrangers, Selling Agents, and Lead Arranger/s and Bookrunner/s appointed in relation to each issuance under the Programme, or Trustee as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Bank in connection with the offering of the Bonds. To the fullest extent permitted by law, the Joint Arrangers, Selling Agents, and Lead Arranger/s and Bookrunner/s appointed in relation to each issuance under the Programme (and their respective affiliates), and Trustee assume no liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank or any statement made or purported to be made by the Joint Arrangers and Trustee or any of their respective affiliates or advisors, in connection with the offering of the Bonds.

Neither the delivery of this Offering Circular nor the offer of Bonds 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 or that any other information supplied in connection with the offering of the Bonds is correct as at any time subsequent to the date indicated in the document containing the same. The Joint Arrangers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

No person is or has been authorized by the Bank or the Joint Arrangers to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the Programme or the offering of any Bonds thereunder and, if given or made, such information or representation must not be relied upon as having been authorized by the Bank or the Joint Arrangers. Neither this Offering Circular nor any other information supplied in connection with the Programme or the offering of any Bonds thereunder (a) is intended to provide the basis of any credit or other evaluations or (b) should be considered as a recommendation by the Bank or the Joint Arrangers that any recipient of this Offering Circular, or any other information supplied in connection with the offering of the Bonds, should purchase any Bonds. Each investor contemplating to purchase any Bonds should rely on its own examination of the Bank and the terms of the offering of the Bonds, including the merits and risks involved. By receiving this Offering Circular, the prospective Bondholder acknowledges that (i) it has not relied on the Joint Arrangers or any person affiliated with them in connection with its investigation of the accuracy of any information in this Offering Circular or its investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group, the Programme, or the Bonds 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 Joint Arrangers.

None of the Bank, the Joint Arrangers, or the Trustee, or any of their respective affiliates, associates or representatives is making any representation to any purchaser of the Bonds 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 Bonds 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 Bonds.

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 Bonds must comply with all applicable laws and regulations in force in the jurisdiction in which it purchases or offers to purchase such Bonds, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such Bonds 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 Joint Arrangers 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*”.

Each Bondholder must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Bonds or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Bonds under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and the Bank or the Joint Arrangers shall have no responsibility therefor.

## **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”, “USD”, 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. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Bank’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Bank’s ability to successfully implement its business strategy, the condition of and changes in the Philippine, Asian or global economies, future levels of nonperforming loans, the Bank’s growth and expansion, including whether the Bank succeeds in its business strategy, changes in interest rates and changes in government regulation and licensing of its businesses in the Philippines and in other jurisdictions where the Bank may operate, and competition in the banking and financial services industry.

Additional factors that could cause the Bank’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Investment Considerations”. Any forward-looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Each of the Bank and the Joint Arrangers expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

## **Industry and Market Data**

Unless otherwise indicated, all industry and market data with respect to the Philippine banking and financial services industries was derived from information compiled and made available by the BSP or other public sources. While the Bank has ensured that such information has been extracted accurately and is believed by the Bank to be reasonable and presented in its proper context, the Bank has not independently verified any of the data from third-party sources or ascertained the correctness of the underlying economic assumptions relied upon therein.

## **Pricing Supplement**

For each issuance of Bonds under the Bank’s Bond Programme, the Bank shall distribute the relevant Pricing Supplement applicable to such issuance of Bonds which shall be disclosed to the public through filing with the PSE and made available for download from the website of the Bank, specifically [www.rcbc.com.ph](http://www.rcbc.com.ph).

The Pricing Supplement shall contain the following information:

- (a) Name of the issuer;
- (b) Description of the issue;
- (c) Description of the specified currency or currencies;
- (d) Description of the offer size of the specific offering;
- (e) Description of the manner of distribution;
- (f) Description of the form and denominations of the Issuance;
- (g) Description of the interest rate and the mode of settlement of the offering;
- (h) Description of the interest payable;
- (i) Description of the provisions relating to redemption;
- (j) Parties to the distribution.

The Pricing Supplement shall also contain amendments or updates to this Offering Circular, if any.

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## **DOCUMENTS INCORPORATED BY REFERENCE**

The following documents published or issued from time to time after the date hereof shall be deemed to be incorporated in, and form part of, this Offering Circular:

- (a) The most recently published audited non-consolidated and (if produced) consolidated annual financial statements and, if published later, the most recently published unaudited interim non-consolidated and (if produced) consolidated financial results of the Issuer, (see “General Information” for a description of the financial statements currently published by the Issuer); and
- (b) All supplements or amendments to this Offering Circular prepared by the Issuer from time to time.

Any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The Issuer will provide, without charge, to each person to whom a copy of this Offering Circular has been delivered, upon request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Requests for such documents should be directed to the Issuer at its office set out at the end of this Offering Circular.

If the terms of the Programme are modified or amended in a manner which would make this Offering Circular, as so modified or amended, inaccurate or misleading, to an extent which is material in the context of the Programme, a new Offering Circular will be prepared.

## **GENERAL DESCRIPTION OF THE PROGRAMME**

Under the Programme, the Issuer, subject to compliance with all relevant laws, regulations, and directives, may from time to time issue Bonds, subject to the terms set out herein. A summary of the general terms and conditions of the Bonds appears below. The applicable terms of any Bond will be agreed between the Issuer and the relevant Arranger(s) prior to the issuance and will be set out in the General Terms and Conditions of the Bonds endorsed on, attached to, or incorporated by reference into, Bond Certificate for the relevant Bonds, as modified and supplemented by the applicable Pricing Supplement attached to, or endorsed on, such Bonds.

This Offering Circular and any supplement will only be valid for enrollment or listing of Bonds on PDS in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Bonds previously or simultaneously issued under the Programme, does not exceed ₱69,500,000,000.

## 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 Bondholder 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 December 2019, the Bank was the seventh 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 507 branches as of 31 December 2019, including 11 extension offices.

As of 31 December 2019, the Bank's consolidated total resources and equity amounted to ₱767,079.00 million and ₱82,850.00 million, respectively. The Bank's consolidated profit before tax and net profit for the year ended 31 December 2019 amounted to ₱6,663.00 million and ₱5,388.00 million, respectively.

As of 13 February 2020, the Bank had a market capitalization on the PSE of ₱40.65billion. The Bank's consolidated Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.9% and 13.8%, respectively, as of 31 December 2019.

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 year ended 31 December 2019, the Corporate 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 Corporate Banking Group ("CBG") focuses on leading Philippine and multinational corporations, Filipino-Chinese businesses, and international corporate clients in special economic zones. Through its current affiliation with the Yuchengco Group of Companies ("YGC") and past affiliation with The Bank of Tokyo-Mitsubishi UFJ Limited ("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's Consumer Lending Group ("CLG") provides a full range of consumer lending products and services. CLG was created after the merger of RSB in RCBC. On 24 September 2018, the Bank's Board of Directors approved the merger of RSB into RCBC. The merger between the Bank and RSB (with the Bank as the surviving entity) became effective on 22 July 2019 following receipt of stockholders' and regulatory approvals. The merger facilitated a more efficient capital deployment and operational costs, and optimized coordination between branches.

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 3.47% share of the remittance business in the Philippines as of 31 December 2019, based on remittance volumes published by the BSP.



RCBC's commitment to service excellence has resulted to numerous awards from regulators, as well as respectable local and international award giving bodies. The Bank, for taking the lead in financing some of the country's major infrastructures, has received industry recognition from international awards-giving bodies such as The Asset Triple A and Benchmark Awards, and the Asian Banking and Finance Corporate and Investment Banking Awards under the The Asset's Asia Infrastructure 2019 'Best Deals by Country' category. These include Transport Deal of the Year, Renewable Energy Deal of the Year and PPP Deal of the Year. The Bank has also received recognition from The Asset Asian Awards as the Best Issuer for Sustainable Finance and Best Sustainability Bond in the Philippines. In the area of Communications and Branding, RCBC received several awards, among them are five Quill Awards from the International Association of Business Communicators, two awards from the Bank Marketing Association of the Philippines, a Gold Anvil for the brand refresh campaign and Silver Anvils for RCBC and RCBC Savings Bank's Merger Communication. Moreover, RCBC Bankard received the Best Card Offering-Philippines recognition during the 5th International Finance Magazine (IFM) Awards and Silver Anvil for the RCBC Bankard Platinum Launch.

## **RECENT DEVELOPMENTS**

### *2020 Senior Notes Issuance*

On 21 January 2015, the Bank issued unsecured Senior Notes amounting to US\$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 US\$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 US\$43 million. The second tranche was a further issuance 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 US\$243 million. The 2020 Senior Notes were used to finance operations and for general corporate purposes, including the refinancing of the Bank's US\$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.

As of 10 December 2019, the Bank's foreign-currency deposit rating and senior unsecured debt rating of Baa2 incorporates a Baseline Credit Assessment (BCA) of Baa3. The outlook on the bank's long term rating is stable.

### *2021 Senior Notes Issuance*

On 2 November 2015, the Bank issued unsecured Senior Notes amounting to US\$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 US\$1 billion 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 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 US\$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 US\$2 billion MTN Programme. On 20 April 2018, the Bank reopened its 2023 Senior Notes and issued a second tranche amounting to US\$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 US\$450 million. The 2023 Senior Notes were used to finance operations and for general corporate purposes.

#### *Stock Rights Offering*

On 16 July 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 ₱14,999,890,584 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.

#### *US\$ Syndicated Loan*

On 18 August 2018, RCBC signed and closed a US\$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 26 February 2021.

#### *LTNCD*

On 28 September 2018, the Bank successfully raised ₱3.58 billion of new Long-Term Negotiable Certificates of Deposits (LTNCDs) due in 2024. The 5.5-year LTNCD carries a coupon of 5.50% per annum.

#### *Merger with RCBC Savings Bank*

RCBC and RCBC Savings, a wholly owned subsidiary of RCBC, was merged on 22 July 2019 as approved by the RCBC Board on 26 November 2018, by the RSB Board on 27 November 2018, by the Stockholders in 26 February 2019, by the Bangko Sentral ng Pilipinas on 17 June 2019 and the Securities and Exchange Commission on 22 July 2019.

#### *Hiring of Treasurer – Effective 5 November 2018*

Horacio E. Cebrero III, Filipino, Senior Executive Vice-President, is the Head of Treasury Group. Prior to joining RCBC in 5 November 2018, he was connected with the Philippine National Bank where he was the Treasury Head, a role which he handled since July 2010. He was previously employed by East West Banking Corporation where he worked as Treasurer from August 2006 to July 2010. He also worked in RCBC in 2004 until 2006 as Deputy Treasurer. He had stints with other firms as follows: Citibank N.A. (Manila) as Chief Dealer; Asian Bank Corporation as Vice President for Treasury Group, AB Capital and Investment House as Manager for Financial Markets; Anscor Capital and Investment House as Manager for Financial Markets, Asian Savings Bank as Manager for Trust and Investments Division; Asia Trust Development Bank as Account Officer; and at Far East Bank & Trust Company as Account Supervisor for Branch Treasury Marketing and Loans & Credit Analyst for Loans and Credit Department. He also held directorships in various firms as follows: PNB Europe as Chairman from January 2016 to November 2018; PNB Capital and Investment Corporation as Director from July 2016 to November 2018; PNB Forex Corporation as Director from August 2014 to 2017; and AIG Philam Savings Bank as Director from March 2009 to September 2009. He graduated with a degree in Bachelor of Science in Commerce major in Marketing Management in 1983 at De La Salle University in Manila. He earned some units in Master of Business Administration at the Graduate School of Business Economics of the same university. He attended and finished Stanford Senior Executive Leadership Program (SSELP), an advance 5-part Executive Education Course Series in Stanford University at Arthur and Toni Rembert Rock Center Hong Kong in December 2017.

#### *Appointment of President and Chief Executive Officer – Effective 1 July 2019*

Eugene S. Acevedo, Filipino, was appointed as President and Chief Executive Officer effective 1 July 2019. Mr. Acevedo brings with him over thirty years (30) years of solid banking experience which he gained from local and multinational banks. With his expertise in strategy formulation, business development, origination, relationship building, cost reduction and risk control, he has successfully handled challenging roles and led sales and revenue generating teams in the said banks. His exposure focused on the following areas: Corporate Banking, Retail Banking, Treasury, Trust, Consumer Finance, Marketing, Credit and Remittance.

He was last connected with Union Bank of the Philippines where he was a Senior Executive Vice President for Corporate and Retail Banking from November 2011 to 6 Nov 2018. In a concurrent capacity, he served as the Chairman of CitySavings Bank, UnionBank's thrift bank subsidiary, from March 2013 to 6 Nov 2018. Prior to

this, he was the President and Chief Executive Officer/Vice Chairman of the Board of the Philippine National Bank from May 2010 to July 2011.

He gained most of his banking experience at Citigroup (1987 to 2010) where he started as a Management Associate for Citibank Philippines, N.A. in 1987. The following are the various roles he handled in the said institution: Managing Director and Head of Global Markets - Hong Kong and Taiwan Cluster; Country Treasurer - Hong Kong; Managing Director, Country Treasurer & Head of Emerging Markets Sales and Trading; Director / Asia Pacific Regional Derivatives Sales Head; Head of Sales and Structuring/Vice President; Vice President for Derivatives Marketing – Asia; Assistant Vice President for Corporate Audit - North Asia; Manager/ Assistant Vice President - Money Market, Foreign Exchange, Bond Trading and Derivatives Trading; and Operations Officer.

During his stints with the banks, he also concurrently performed significant roles for subsidiaries and actively participated in community and industry affairs.

Mr. Acevedo is a Magna Cum Laude graduate from the University of San Carlos where he earned a degree in Bachelor of Science in Physics in 1984. He finished his Masters in Business Administration, ranking first in the graduating class in 1987, at the Asian Institute of Management. He completed an Advanced Management Program at the Harvard Business School in 2014.

#### *ASEAN Green Bond*

On 1 February 2019, the Bank successfully issued ₱15 billion worth of ASEAN Green Bonds due in 2020. The Green Bonds carry a coupon of 6.7315% per annum. This issuance is the first green bond from the Philippines issued under the ASEAN Green Bond Standards 2018.

#### *ASEAN Sustainability Bond Issuance*

On 4 June 2019, the Bank issued ₱8 billion worth of ASEAN Sustainability Bonds due in 2021. The Green Bonds carry a coupon of 6.15% per annum. This issuance is the first sustainable bond from the Philippines issued under the ASEAN Sustainability Bond Standards 2018.

#### *Increase of Peso Bond Programme*

On 29 July 2019, the Board approved the increase of the Bank's domestic Peso bond and commercial paper programme to ₱100 billion, which was approved by the BSP on 8 August 2019, of which ₱30.5 billion has been issued.

#### *Early Redemption of Tier 2 Capital Notes*

On 25 July 2019, BSP approved the Bank's request to exercise a call option and redeem its ₱10 billion, 5.375 per cent. Tier 2 Capital Notes before its maturity on 27 September 2024. On 26 September 2019, the Bank exercised its call option and redeemed its Tier 2 Capital Notes.

#### *2024 ASEAN Sustainability Bond Issuance*

On 4 September 2019, the Bank issued US\$300 million worth of bonds maturing in 4 September 2024. The 2024 Bonds bear interest at 3.00% per annum, payable quarterly, and was issued out of the Bank's US\$2 billion MTN Programme.

#### *2023 Senior Notes Issuance*

On 13 November 2019, the Bank issued ₱7.5 billion worth of Fixed Rate Bonds due in 2023. The Bonds carry a coupon of 4.426% per annum, and are due on November 2022. This would be the third tranche of the Peso Bond Programme.

## 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 2017, 2018 and 2019. The Bank's audited consolidated financial statements for the years ended 31 December 2017, 2018, and 2019 have been prepared in accordance with Financial Reporting Standards in the Philippines.*

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)

	2017	2018	2019
<b>INTEREST INCOME</b>			
Loans and receivables	21,956	27,037	32,646
Trading and investment securities	2,430	3,403	4,498
Others	378	493	434
	<u>24,764</u>	<u>30,933</u>	<u>37,578</u>
<b>INTEREST EXPENSE</b>			
Deposit liabilities	3,959	6,295	8,626
Bills payable and other borrowings	2,784	4,149	6,584
	<u>6,743</u>	<u>10,444</u>	<u>15,210</u>
<b>NET INTEREST INCOME</b>	<u>18,021</u>	<u>20,489</u>	<u>22,368</u>
<b>IMPAIRMENT LOSSES - NET</b>	<u>2,155</u>	<u>1,899</u>	<u>7,397</u>
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>	<u>15,866</u>	<u>18,590</u>	<u>14,971</u>
<b>OTHER OPERATING INCOME</b>			
Service fees and commissions	3,138	3,323	3,854
Trading and securities gains - net	900	-	7,492
Trust fees	279	278	323
Foreign exchange gains - net	798	843	347
Share in net earnings (loss) of associates	92	14	21
Miscellaneous - net	1,893	1,548	1,453
	<u>7,100</u>	<u>6,006</u>	<u>13,490</u>
<b>TOTAL OPERATING INCOME</b>	<u>22,966</u>	<u>24,596</u>	<u>28,461</u>
<b>OTHER OPERATING EXPENSES</b>			
Employee benefits	5,991	6,562	6,833
Occupancy and equipment-related	3,185	3,457	2,800
Depreciation and amortization	1,914	1,821	2,503
Taxes and licenses	1,821	2,238	3,103
Trading and securities loss - net	-	-	-
Miscellaneous	4,904	5,325	6,559
	<u>17,815</u>	<u>19,403</u>	<u>21,798</u>
<b>PROFIT BEFORE TAX</b>	<u>5,151</u>	<u>5,193</u>	<u>6,663</u>
<b>TAX EXPENSE (INCOME)</b>	<u>841</u>	<u>872</u>	<u>1,275</u>
<b>NET PROFIT</b>	<u>4,310</u>	<u>4,321</u>	<u>5,388</u>
<b>ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS</b>	<u>4,308</u>	<u>4,320</u>	<u>5,387</u>
<b>NON-CONTROLLING INTERESTS</b>	<u>2</u>	<u>1</u>	<u>1</u>
	<u>4,310</u>	<u>4,321</u>	<u>5,388</u>
<b>EARNINGS PER SHARE</b>			
Basic and Diluted	<u>3.08</u>	<u>2.62</u>	<u>2.78</u>

## Consolidated Statements of Financial Position (₱ million)

(₱ millions)	For the year ended 31 December		
	2017 (audited)	2018	2019
<b>RESOURCES</b>			
Cash and other cash items	14,693	17,392	16,907
Due from Bangko Sentral ng Pilipinas	58,801	56,495	87,255
Due from other banks	19,818	20,342	18,818
Loans and receivables arising from reverse repurchase agreement	9,831	10,032	5,768
Trading and investment securities — net	72,932	118,449	160,719
Loans and receivables — net	354,243	398,300	449,219
Investments in and advances to subsidiaries and associates — net	417	423	444
Bank premises, furniture, fixtures and equipment — net	8,946	8,415	11,059
Investment properties — net	3,399	3,631	4,142
Deferred taxes	1,896	2,094	2,140
Other resources — net	9,012	9,022	10,608
<b>TOTAL RESOURCES</b>	<b>553,988</b>	<b>644,595</b>	<b>767,079</b>
<b>LIABILITIES AND EQUITY</b>			
Deposit liabilities	388,412	423,399	456,581
Bills payable	43,967	56,001	101,606
Bonds payable	28,060	53,090	96,814
Subordinated debt	9,968	9,986	-
Accrued interest, taxes and other expenses	4,185	5,277	6,202
Other liabilities	12,369	15,672	23,026
<b>TOTAL LIABILITIES</b>	<b>486,961</b>	<b>563,425</b>	<b>684,229</b>
<b>EQUITY</b>			
Attributable to:			
Parent Company Shareholders	66,999	81,144	82,831
Non-controlling Interests	28	26	19
	<b>67,027</b>	<b>81,170</b>	<b>82,850</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>553,988</b>	<b>644,595</b>	<b>767,079</b>

## Selected Financial Ratios

	For the year ended 31 December		
	2017	2018	2019
Return on assets <sup>(1)</sup>	0.82%	0.73%	0.80%
Return on shareholders' equity <sup>(2)</sup>	6.72%	5.78%	6.47%
Net interest margin <sup>(3)</sup>	4.25%	4.00%	4.03%
Cost-income margin <sup>(4)</sup>	70.92%	73.23%	60.79%
Loan-to-deposits <sup>(5)</sup>	90.84%	96.51%	100.68%
Tier 1 capital adequacy ratio <sup>(6)</sup>	12.45%	13.38%	12.89%
Total capital adequacy ratio <sup>(7)</sup>	15.46%	16.13%	13.76%
Total equity-to-total assets <sup>(8)</sup>	12.10%	12.59%	10.80%
Total non-performing loans to-total loans – excluding interbank loans <sup>(9)</sup>	1.27%	1.11%	1.97%
Total non-performing loans to-total loans – including interbank loans <sup>(10)</sup>	1.27%	1.08%	1.89%
Allowance for loan impairment losses to-total gross loans <sup>(11)</sup>	2.13%	3.02%	3.08%
Allowance for loan impairment losses to-total non-performing loans <sup>(12)</sup>	94.94%	131.11%	79.01%
Earnings per share (₱) <sup>(13)</sup>	3.08	2.62	2.78

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- (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 Bonds 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 Bonds. 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 Bonds could decline due to any one of these risks, and all or part of an investment in the Bonds 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 Bondholders are encouraged to make their own independent legal, tax, financial, and business examination of the Bank, the Bonds, and the market. Neither the Bank nor the Joint Arrangers make any warranty or representation on the marketability or price on any investment in the Bonds.*

### CONSIDERATIONS RELATING TO THE PHILIPPINES

**Political instability in the Philippines could destabilize the country and may have a negative effect on its general economic conditions, which may in turn 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.

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 Organic Law ("BOL") which will create the Bangsamoro Autonomous Region of Muslim Mindanao ("BARMM") 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. On 25 January 2019 and 6 February 2019, plebiscites were held to determine wherein voters ratified the BOL and affirmed the creation of the BARMM. Transition plans are now in effect, and the BARMM is currently in the process of drafting its own local government code. It is expected that the signing of the BOL and the creation of the BARMM 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 BARMM.

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 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 be released. 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. A third extension, approved by Congress on 12 December 2018, places the Mindanao under martial law for a total of over two and a half years, or until December 2019. With this further 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.

One of President Duterte's main campaign promises during his electoral bid for the presidency was to shift the form of Philippine government to a federal-parliamentary system. He had recently created the Consultative Committee ("Con-Com") to draft the proposed federal charter, and 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-governance 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 June 2019, President Duterte changed his tune on federalism and has expressed that he will no longer be pushing for the shift from a unilateral to a federal form of government. He, however, has continued to promote other changes to the Philippine Constitution

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 including a bombing in Davao City on 2 September 2016, which caused at least 15 deaths and 70 injuries. 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 Abduhir 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 2 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 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. In October 2017, the Government announced that the leaders of the Maute Group had been killed. Despite this, martial law has continually been extended over Mindanao, with the latest extension having been approved by Congress on 12 December 2018. Voting 235-28-1, Congress also extended the suspension of the writ of habeas corpus. Mindanao will thus be under martial law for a total of over two and a half years, or from 23 May 2017 to 31 December 2019.

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.

**Territorial disputes with China and other Southeast Asian nations may disrupt the Philippine economy and business environment.**

The Philippines has been engaged in several territorial disputes with China, and other Southeast Asian countries over disputed islands in the West Philippine Sea. The Philippines maintains that its claim over a group of islands known as the Scarborough Shoal is supported by recognized principles of international law, and is consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). Actions taken by both governments have disrupted trade between the two countries, including a temporary ban by China on banana imports from the Philippines. China rejected the Philippine government's request for arbitral proceedings in accordance with UNCLOS to resolve the disputes.

In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines and against China in relation to the ongoing disputes over islands in the West Philippine Sea. Despite this, China has categorically stated that it will not recognize said ruling. Without a formal enforcement mechanism, the territorial dispute remains unresolved and has resulted in some tension between Filipino and Chinese nationals at sea. On 9 June 2019, a fishing boat manned by Filipino fishermen was rammed by a Chinese vessel at Recto Bank, an underwater feature being claimed by both the Philippines and China in the portion of the South China Sea portion that Manila calls the West Philippine Sea. The Filipino fishermen were abandoned in open sea and were eventually rescued by a Vietnamese vessel. This incident increased tensions between China and the Philippines. The owners of the Chinese vessel have since apologized to the Filipino fishermen and remuneration is being arranged for the fishermen.

Territorial disputes between the Philippines and neighbouring countries may continue, and, should these escalate, the Philippines and its trade and economy may be adversely affected.

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

The sovereign credit ratings of the Philippines directly affect companies residing and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's ("S&P") (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2015. In December 2017, Fitch upgraded the country's rating to BBB, with a stable outlook, on strong economic conditions and planned tax reform, while S&P raised its outlook to Positive from Stable last April 2018. As of 17 March 2020, ratings for Moody's, S&P, and Fitch are Baa2, BBB+, and BBB, respectively. All ratings are above investment grade and the highest that the country has received so far from any credit ratings agency.

International credit rating agencies issue credit ratings for companies with reference to the country in which they reside. As a result, the sovereign credit ratings of the Philippines directly affect companies that reside in the Philippines, such as the Bank.

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 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**

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the *Aedes aegypti* mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

On 6 August 2019, the Department of Health declared a national dengue epidemic in the wake of the 146,062 cases recorded since January up to 20 July 2019 – a number 98% higher than the same period in 2018. There were 662 deaths. Furthermore, seven out of the 17 regions of the Philippines have exceeded the epidemic threshold of dengue in their regions for the past three consecutive weeks. The Department of Health also saw a slight increase in diphtheria in 2019, recording a total of 167 cases and 40 deaths from January to September 2019. This is slightly higher than figures from the same period in 2018, with 122 cases and 30 deaths.

On 19 September 2019, the Department of Health declared a polio epidemic after a case of the disease was recorded in Lanao del Sur. Low vaccination coverage, poor early surveillance of polio symptoms, and substandard sanitation practices are seen as the culprits in this re-emergence.

The Department of Agriculture has also confirmed the presence of African swine fever among hogs in the Philippines. More than 180,000 pigs have been culled throughout the Philippines.

The Department of Health has confirmed, however, that African swine fever is not a risk to humans, as it is a severe and contagious disease that infects only domestic and wild pigs.

The recent outbreak in China of the Coronavirus Disease 2019 (“COVID-19”), which has been declared by the World Health Organization to be a “public health emergency of international concern,” has spread across the globe and is impacting worldwide economic activity and financial markets, including the Philippines. In January 2020, the Philippines reported its first cases of COVID-19; the patients were Chinese nationals who had travelled to the Philippines from China. On February 2, 2020, to stem the spread of the virus, the Philippine government issued travel restrictions for foreign nationals coming from China and its Special Administrative Regions (Hong Kong and Macau), or who had been to China and its Special Administrative Regions within 14 days prior to their arrival in the Philippines. The travel ban was extended to include South Korea, Taiwan and other areas of China. On March 3, 2020, the Inter-agency Task Force on Emerging Infectious Diseases partially lifted the travel restrictions on South Korea, except for the North Gyeongsang province. As of March 11, 2020, the Philippines has reported a total of 33 cases of COVID-19, with several patients having no known travel history outside of the country; meanwhile, as of the same date, 118,582 cases of COVID-19 have been reported across 114 countries, with 4,262 patient deaths worldwide.

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 which may be coupled with typhoons, such as the country’s experience with Typhoon Henry in 2018, as well as earthquakes such as that which affected Bohol in 2014 and several in Davao throughout 2019 and 2020, may have similar effects.

Volcano eruptions prove to be a factor as well, like with Taal Volcano’s recent eruption in 2020. 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 was a total of 46 domestic and foreign universal and commercial banks operating in the Philippines as of 30 September 2019, 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;
- full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on 15 July 2014): a) the acquisition, purchase or ownership of up to one hundred per cent (100%) of the voting stock of an existing bank; b) investment in up to one hundred per cent (100%) of the voting stock of a new banking subsidiary incorporated under Philippine law; or c) establishment of branches with full banking authority;
- domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- continued consolidation in the banking sector and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the removal of foreign ownership restrictions.

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. According to data from the BSP, the NPL ratios exclusive of interbank loans in the Philippine banking system for universal and commercial banks were 1.3%, 1.3%, and 1.6% as of the years ended December 2017, 2018, and 2019 respectively

### **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 non-performing loans ("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 December 2019, the Bank held ₱4.80 billion in financial assets at fair value through profit or loss, ₱52.43 billion in financial assets at fair value through other comprehensive income and ₱100.22 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 December 2019, 88.24% 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 NPLs. For the years ended 31 December 2017, 2018, and 2019 the Bank made charges to income provisions for impairment

of ₱2,155.00 million, ₱1,899.00 million, and ₱7,397.00 million respectively, representing 11.96%, 9.27%, and 33.07%, respectively of the Bank's net interest income for these periods.

For the years ended 31 December 2017, 2018, and 2019, the Bank's net NPLs totaled, ₱4,491.00 million, ₱4,316.00 million and ₱8,555.00 million, respectively, representing 1.30%, 1.08% and 1.89%, respectively, of the Bank's total loan portfolio (including interbank loans).

For the years ended 31 December 2017, 2018, and 2019 the Bank's NPL coverage ratio, defined as provisions divided by NPLs, was 94.90%, 131.11%, and 79.01%, 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.

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.**

In February 2016, four allegedly unauthorized transfers of funds from the Bangladesh Bank's account with the Federal Reserve Bank of New York ("FRBNY") to four accounts in the Bank occurred, which were eventually transferred to various accounts outside of the Bank and into casinos. In August 2016, the Monetary Board approved the imposition of supervisory action on the Bank to pay the amount of ₱1 billion in relation to the completed special examination. The Bank has fully recognized the BSP's ₱1 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. Nonetheless, there may still be other regulatory cases arising from these events.

***Bangladesh Bank's Federal Racketeer Influence and Corrupt Organizations ("RICO") Act Case and Discovery Application Under 28 U.S.C. §1782***

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

Bank sought the dismissal of the case on both procedural and substantive grounds, including (a) *forum non conveniens*; (b) the ineffectual service of summons upon it; (c) the lack of nexus with New York in view of Bank's minimal contact therewith; and (d) failure of the Complaint to plead a legitimate basis for federal court jurisdiction. Thus, the Bank filed a pre-motion to dismiss letter on 8 April 2019, and the joint motion to dismiss letter on 30



April 2019, to which the Bangladesh Bank filed its response. An initial pre-trial conference was held by the U.S. District Court on 21 May 2019 where the judge decided to stay discovery pending the resolution of the motions to dismiss.

On 14 June 2019 (U.S. Time), the Bank/other co-defendants, filed (a) a joint motion to dismiss based on lack of subject matter jurisdiction, and (b) another joint motion to dismiss based on *forum non conveniens*. In response, Bangladesh Bank filed its Memoranda of Law essentially claiming that (a) the February 2016 cyber-heist targeted Bangladesh Bank, the US and the FRBNY as part of an overreaching cyber-conspiracy that began in 2014 with the Sony Pictures hacking and continued until 2018; (b) the two-year continuity close-ended requirement does not exist, and it clearly pled the existence of conspiracy between the defendants; (c) proof that Philippine courts can handle complex cases/international discovery requests is lacking, and litigation costs in the Philippines are high; and (d) the availability of key witnesses/evidence are contingent on New York as venue of the litigation.

On 1 August 2019 (U.S. Time), the Bank/co-defendants filed their Reply Memoranda, asserting that Bangladesh Bank's RICO conspiracy claim is fatally deficient given its failure to (a) plead the time-bound existence of a pattern in defendants' racketeering activities, not to mention the lack of any on-going criminal activity; and (b) prove that the defendants took part in the criminal enterprise's affairs beyond their respective businesses (i.e., the casinos). Also, money outflowed from New York to the Philippines, thus the more relevant witnesses/evidence are in the country, and Bangladesh Bank's US\$30 million reserves is more than sufficient for any litigation in the Philippines where the legal fees are less. Moreover, Bangladesh Bank's earlier recovery of the amount of US\$15 million proves the adequacy of Philippine courts, and the Philippine Blocking Statute/non-ratification to the Hague Convention will make it burdensome/impossible for relevant documents/witnesses to be produced or appear in New York.

On 21 August 2019 (U.S. Time), Bangladesh Bank requested for leave to file a Sur-Reply dated 19 August 2019, to address certain new issues allegedly raised by the defendants in their last pleadings, which the Presiding Judge granted with a note that Bangladesh Bank's Sur-Reply may or may not be considered in the resolution of the two (2) joint motions to dismiss.

On 22 November 2019 (U.S. Time), the Bank/co-defendants filed their Notice of Supplemental Authority stating that (a) the U.S. District Court SDNY in the 28 U.S.C. §1782 petition denied Bangladesh Bank's Motion to vacate/quash the BNYM subpoena in its Order dated 20 November 2019; and (b) BNYM produced the requested documents on 19 September 2019, which have since been served upon the Bank, thus proving that discovery is readily available under 28 U.S.C. §1782.

On 26 November 2019 (U.S. Time), Bangladesh Bank filed its Notice of Supplemental Authority and Response to Defendants' Notice of Supplemental Authority, arguing that (a) the discovery process underscores the importance of evidence in the U.S.; (b) the Bank is attempting to obstruct justice/suppress discovery in the Philippines (citing pleadings filed in the money-laundering case filed against five (5) current/former employees); and (c) the intention is to shift the venue away from New York to the Philippines where Bangladesh Bank has no presence/its claims will die, making the denial of the Bank/co-defendants' *forum non conveniens* motion imperative.

On 3 December 2019 (U.S. Time), the Bank/co-defendants filed their Defendants' Response to Plaintiff's Notice of Supplemental Authority point out that (a) the case cited in the pleadings has nothing to do with the 28 U.S.C. §1782 proceedings, which is the case in issue; (b) the Bank did not intervene in the money-laundering case as it merely made a special appearance to oppose the production of internal audit reports which mentioned other bank accounts/the identities of their owners, who are not involved in the case/have not consented to any disclosure; (c) Bangladesh Bank did not make known that redacted forms of such reports were ultimately allowed and that, where Bank Secrecy laws do not apply, the Bank has produced several documents via subpoena; and (d) Bangladesh Bank does not dispute that there has been discovery in the U.S. in aid of a Philippine proceeding, which highlights the adequacy of the Philippines as a proper forum for the dispute in issue.

On 1 August 2019 (U.S. Time), and in relation to the Injunction and Damages case filed in the Philippines, the Bank's former National Sales Director ("NSD") obtained an Order dated 9 August 2019 from another U.S. District Court SDNY Branch compelling the Bank of New York Mellon ("BNYM") to produce non-privileged communication documents/testimonial evidence on the payment order of US\$30 million on 4 February 2016, which the BNYM received from SWIFT, Bangladesh Bank, FRBNY and the Federal Bureau of Investigation, after the former NSD served copies of his application to all counsels of record in the Injunction and Damages case.

On 23 August 2019 (U.S. Time), but without prior leave, Bangladesh Bank tried to intervene in the case/vacate the aforesaid Order, claiming that (a) the target documents/testimonial evidence contain potentially confidential/personal information; (b) these relate to the Federal RICO Act case, where discovery was stayed; (c) setting aside the propriety of its intervention, it has standing to question the discovery orders due to BNYM's failure to quash the subpoena; (d) the target evidence include those not germane to the Philippine Injunction and Damages case; and (e) the former NSD's petition violated the Local Rules requiring notification to the U.S. District Court SDNY Branch handling the Federal RICO Act case, and his subpoena application should be consolidated therewith. To cure its procedural misstep, the counsel for Bangladesh Bank formally sought to stay the enforcement of the subpoena on BNYM, claiming that it is the ultimate target of such discovery proceedings.

In response, the counsel for the former NSD underscored (a) BNYM's lack of objection to the discovery process; (b) Bangladesh Bank's own violation of the U.S. District Court SDNY's Individual Rules and Local Rules; (c) Bangladesh Bank's lack of standing to assail the application in issue; (d) the former NSD's compliance with the notification requirement to Bangladesh Bank's local counsel in the Philippines; and (e) the independent nature of the former NSD's Petition vis-à-vis the Federal RICO Act case. On August 30, 2019 (U.S. Time), the former NSD formally filed his Memorandum of Law in Opposition to Bangladesh Bank's Motion to Vacate Order and Take Discovery Under 28 U.S.C. §1782 and To Quash Subpoena Under FRCP 45, reiterating his arguments on the propriety of the subpoena upon BNYM, and his compliance with the requirements of 28 U.S.C. §1782.

As indicated above, on 20 November 2019 (U.S. Time), the U.S. District Court SDNY denied Bangladesh Bank's Motion to vacate/quash the previous Order dated 9 August 2019, even as it allowed Bangladesh Bank's intervention in the proceedings, thereby sustaining the former NSD's claim on (a) his compliance with the notification requirement to the U.S. District Court SDNY Branch handling the Federal RICO Act case vis-à-vis Bangladesh Bank's Philippine counsel in the Injunction and Damages case; (b) the lack of relation between the cases (grounded on the existence of an alleged conspiracy to steal/launder the funds of Bangladesh Bank, and the alleged defamatory statements made after the incident); and (c) Bangladesh Bank's failure to prove how BNYM's compliance with the subpoena will conflict with the rulings to be issued in the Federal RICO Act case.

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

On 6 March 2019, the Bank/the former NSD filed a complaint for Injunction and Damages against the Bangladesh Bank with the Regional Trial Court of Makati City ("Makati Trial Court") to put a stop to the latter's repeated acts of (a) defaming, harassing and threatening the Bank/the former NSD, and (b) making it appear that they were involved in the theft of the US\$81 million from its FRBNY bank account, and thus, obligated to pay/return the same. The Bank/former NSD posited that (a) Bangladesh Bank lost the US\$81 million the minute the said funds were transferred from its FRBNY's bank account, and they had no participation therein; and (b) Bangladesh Bank has been making very public/outrageous claims that the Bank (and its officers, including the former NSD) allegedly conspired with North Korean hackers to steal the said funds/launder the same, which repeated negative publicity is apparently designed to force the Bank to settle therewith.

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

At the 19 July 2019 hearing, the Makati Trial Court issued an Order holding that (a) Bangladesh Bank's claim of immunity from suit cannot be sustained as its own Charter expressly states that it has the power to sue and be sued; (b) Bangladesh Bank was properly/validly served with summons through the Deputy Governor and the Head of Bangladesh Bank's Manila delegation; and (c) the filing of the complaint for Injunction and Damages, in relation to the case initiated by Bangladesh Bank in the U.S. District Court SDNY, cannot be considered forum shopping as none of the requirements for *litis pendentia*, save for identity of parties, are present. The Makati Trial Court has directed the Bangladesh Bank to file its Answer to the Complaint within fifteen (15) days from notice, and set a status hearing which has been further reset to 14 February 2020. Bangladesh Bank's motion for reconsideration of the 19 July 2019 Order, anchored on its claim of (a) non-waiver of its sovereign immunity; and (b) non-defamatory nature of the statements made by Bangladeshi officials, on the purported involvement of the Bank in money laundering, remains pending to date.

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

Anent the criminal complaint for money laundering filed against former Business Manager Maia S. Deguito ("BM Deguito"), the Anti-Money Laundering Council of the Philippines ("AMLC") filed with the Department of Justice ("DOJ") a second criminal complaint against six (6) current/former employees of the Bank for alleged violation of Section 4(f) of R.A. No. 9160, as amended, arising from their alleged performance or failure to perform an act, which purportedly facilitated the crime of money laundering of US\$81 million. Acting on the complaint, the DOJ found probable cause against five (5) of such current/former employees, Raul B. Tan, Ismael S. Reyes, Bridgette B. Capiña, Romualdo S. Agarrado, and former Senior Customer Relationship Office Angela Ruth S. Torres ("SCRO Torres"), and filed the corresponding Information with the Regional Trial Court of Makati City ("Makati Trial Court"), which it subsequently amended.

After arraignment, Pre-Trial/Trial ensued with the Prosecution (a) concluding its prosecutorial action upon the filing of its Formal Offer of Evidence on 18 October 2019, and (b) making a tender of excluded evidence after a number thereof were held to be inadmissible. All the accused requested leave, and filed their Demurrer to Evidence premised on the insufficiency of evidence against them, which were deemed submitted for resolution in the Order dated 10 December 2019.

In the Resolution dated 26 December 2019, the Makati Trial Court granted the Demurrer to Evidence of Tan, Reyes and Capiña, and dismissed the case against them, taking note of (a) their non-participation in the opening of the beneficiary accounts/validation of the inward remittances; (b) Philippine jurisprudence (forming part of Philippine law) which prohibit banks from unilaterally freezing accounts after the credit of funds suspected to be of shady origins, and Section 10 of R.A. No. 9160 which bars the same sans a Court of Appeals-issued freeze order; (c) BSP Circular No. 706 account closure/termination of relationship requirement upon an adverse Enhanced Due Diligence ("EDD") finding (instead of a freeze on the account); and (d) Tan's directive on 5 February 2016, to file a Suspicious Transaction Report ("STR") upon the lifting of the hold.

The Makati Trial Court declined to dismiss the case against SCRO Torres/Agarrado ruling that, unless rebutted, they may be convicted given proof of (a) the direct involvement of SCRO Torres in the opening of the beneficiary accounts/the 5 February 2016 fund transfers/withdrawals from the related Centurytex Trading account even as owner William Go was absent; and (b) Agarrado's act of releasing the withdrawn funds to former BM Deguito/his agreement with SCRO Torres to hide this from the Bank's internal auditors. The Makati Trial Court then directed SCRO Torres/Agarrado to present their evidence on 23 January 2020, as previously scheduled.

The Prosecution/SCRO Torres filed their respective Motion for Reconsideration on the Resolution dated 26 December 2019, with the Prosecution arguing that (a) Tan, Reyes and Capiñas's failure to conduct EDD facilitated money-laundering; (b) a "hold" is different from as a "freeze order", and is permitted in some instances under the doctrine of necessary implication; and (c) the cases cited in the Resolution are not apropos. Tan, Reyes and Capiña countered that the Prosecution's arguments are merely a rehash of the arguments previously raised/passed upon by the Makati Trial Court. SCRO Torres, on the other hand, argued that the evidence against her is hearsay, based merely on what the witnesses gathered from their investigation, and that the rationale for the dismissal of the charge against Tan, Reyes and Capiña is applicable to her.

During the 23 January 2020 hearing, Agarrado made an oral motion to (a) present his witness, and (b) have a trial separate from SCRO Torres (whose Motion for Reconsideration is still pending), which was granted. At the close of the hearing, the Makati Trial Court continued the presentation of defense evidence on 13 February 2020 at 8:30 am. The Prosecution assailed the separate trial ruling in its Motion for Reconsideration, arguing that this is contrary to the prior finding of unity of acts between Agarrado/SCRO Torres. Responding to the separate Comments filed by SCRO Torres/Agarrado, the Prosecution, in its Reply dated 14 February 2020, reiterated the danger posed by a separate trial in that testimony imputing guilt to any of the co-accused will not be admissible against the other who was not able to cross-examine him. The incident remains pending to date.

Acting on the criminal complaints filed by the Bank and Mr. Go in connection with a series of unauthorized acts/transactions relating to the money laundering of US\$81 million, the Office of the City Prosecutor of Makati City found probable cause to charge former BM Deguito/former SCRO Torres with several counts of falsification of commercial document and perjury, respectively, before the Metropolitan Trial Court of Makati City ("Makati MTC"). The Bank has several petitions for review still pending with the Department of Justice in relation to actions that it has initiated against former Bank employees in relation to the Bangladesh Bank incident.

Due to the death of Mr. Go, the Prosecution in the falsification of commercial document cases signified its intention to present the bank teller who processed the questioned transactions, which BM Deguito opposed. Pending its resolution, the Makati MTC cancelled the 22 October 2019 hearing and set additional hearings on 28 January, 10 March and 31 March 2020, and 21 and 28 April 2020, all at 8:30 am. The 28 January 2020 hearing was cancelled anew, as the Presiding Judge was indisposed.

The Makati MTC hearing the perjury case rejected the attempt of SCRO Torres to recall/cross-examine a Prosecution witness, the non-appearance of her counsel at the scheduled hearing being inexcusable. At the close of the testimony of the Questioned Document Examiner on October 3, 2019, the Makati MTC set the case for further hearing on 19 March 2020 and 2 April 2020, both at 8:30 am.

**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 NPLs 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 NPLs, 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 2017, 2018 and 2019, the Bank's secured loans represented 47.24%, 47.84%, and 56.64%, respectively, of the Bank's total loans. As of those dates, 24.43%, 29.12%, and 41.10%, 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, 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 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 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 Common Equity Tier 1 (“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. On 27 September 2019, the BSP issued BSP Circular No. 1051, which amended the framework for dealing with DSIBs provided under BSP Circular No. 856.

Under the Guidelines, 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 cut-off 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 BSP 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 CET1 capital.

Under BSP Circular No. 1051, the minimum HLA requirement for the lower bucket shall be 1.5% of risk-weighted assets at all time. For the higher-populated bucket, the HLA requirement shall range from above 1.5% to 2% of risk-weighted assets. An empty top bucket with HLA requirement of 2.5% of risk-weighted assets shall also be maintained. The differentiated HLA requirement for DSIBs slotted under the higher-populated bucket is to be based on the ranking of a bank’s overall systemic importance through the use of the indicator-based measurement approach. An equation is provided in BSP Circular No. 1051 for computing the additional loss absorbency requirement for DSIBs slotted under the higher-populated bucket. The HLA requirement shall, furthermore, be on top of the combined requirement for capital conservation buffer (“CCB”) and countercyclical capital buffer (“CCyB”), as determined under BSP Circular No. 1051. Restrictions on distributions are provided under BSP Circular No. 1051, depending on the CCyB rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions.

Transitional arrangements to enforce the HLA requirement have been implemented. In the case of banks included in the first list of DSIBs (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. Under BSP Circular No. 857, further lists of DSIBs will be issued until 31 December 2021. After the phase-in period, banks identified as DSIBs will have 18 months to comply with the required HLA. BSP Circular No. 1051 provides for a schedule of restriction of distribution during the phased-in implementation period of the HLA requirement, for the periods beginning 1 January 2017 and ending on 31 December 2019, which is based on the level of CET1 capital of a bank and whether or not it is in the higher-populated bucket or in the lower bucket.

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 capital (under the relevant BSP Circulars) before the 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.

Furthermore, banks face new liquidity requirements under Basel III’s new liquidity framework, namely, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (“NSFR”). On 10 March 2016, the BSP issued Circular No. 905, or the “Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio and Disclosure Standards”. The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90% which will then be increased to 100% beginning 1 January 2019. During the observation period prior to 1 January 2018, banks are required to submit quarterly LCR reports for monitoring purposes. Meanwhile, the NSFR requires that banks’ assets and activities are structurally funded with long-term and more stable funding sources. This is being finalised and the BSP said that the exposure draft may be issued within the year. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets. Circular No. 1035 of the BSP introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035 (i) extended the



observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio.

On 6 June 2018, the BSP issued Circular No. 1007 in relation to the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards –NSFR. The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks and quasi-banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. Covered banks and quasi-banks shall undergo an observation period from 1 July 2018 to 31 December 2018 before the actual implementation of the minimum 100% NSFR in 1 January 2019 and thereafter. On 15 March 2019, the BSP issued Circular No. 1034, further extending the observation period for subsidiary banks/quasi-banks of universal and commercial banks from 1 July 2018 to 31 December 2019 before the implementation of the minimum 100% NSFR starting 1 January 2020.

On 13 December 2018, the Monetary Board approved the Philippine adoption of the Countercyclical Capital Buffer (“CCyB”) intended for universal and commercial banks (U/KBs) as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their CET1 capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of zero percent, which is line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of 12 months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

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 30 September 2019, according to the BSP, the universal and commercial banking industry’s capital adequacy ratio (“CAR”) was 15.6% on a solo basis. As of 31 December 2019, the Bank’s CAR was 13.76%.

**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 Bondholders**

The Bank is effectively controlled by YGC. As of 31 December 2019, the Yuchengco family, directly or indirectly, primarily through the Pan Malayan Management & Investment Corp. (“PMMIC”) owned 41.66% of the Bank’s issued and outstanding shares, while other members of YGC owned or controlled an additional 10.70% 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 Philippines, Inc.

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 2017, 2018, and 2019, the Bank derived dividend income of ₱234.00 million, ₱189.00 million, and ₱304 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 BONDS ISSUED OUT OF THE PROGRAMME**

### **The Bonds may not be a suitable investment for all investors.**

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase Bonds as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

### **The priority of debt evidenced by a public instrument.**

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244 of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Bonds in the event of the liquidation of the Bank.

### **The Bonds may have limited liquidity.**

The Bonds constitute a new issue of securities for which there is no existing market. The Selling Agents are not obligated to make a market in any Bonds. While market makers have been appointed for the Bonds, any market-making activity with respect to such Bonds, if commenced, may be discontinued at any time without notice in its sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for the Bonds. If an active trading market for any Bonds does not develop or is not maintained, the market price and liquidity of such Bonds may be adversely affected. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

The Bank intends to enroll or list, as applicable, the Bonds on PDEX. However, there can be no assurance that the Bank will obtain or be able to maintain such an enrollment or listing or that, if listed, a trading market will develop for the Bonds on the PDEX. The Bank does not intend to apply for enrollment or listing of the Bonds on any

securities exchange other than the PDEX. Lack of a liquid, active trading market for the Bonds may adversely affect the price of the Bonds or may otherwise impede a holder's ability to dispose of the Bonds.

#### **The Bank may be unable to redeem the Bonds.**

At maturity, the Bank will be required to redeem all of the Bonds. The Bank may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem the Bonds by the Bank would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Bank.

#### **Transfers only through PDEX**

While the Bonds are enrolled or listed in the PDEX, all transfers of the Bonds 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 Bonds may not be affected given these restrictions.

The Bonds are required to be enrolled or listed, as applicable, 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 Bonds 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](http://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 Bonds 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 Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

#### **Issuance and Transfer Restrictions**

The Bonds may not be issued or transferred to Prohibited Bondholders as defined in the General Terms and Conditions.

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

#### **The credit ratings assigned to the Bank or the Bonds may not reflect all risks.**

One or more independent credit rating agencies may assign credit ratings to the Bank, an issue or Bonds and/or the Programme. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds and/or the Programme. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

#### **Taxation of the Bonds**

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine-sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic

corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall 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 relevant interest-bearing instrument is effectively connected with such permanent establishment.

Under the terms of the Bonds, if payments of principal and/or interest in respect of the Bonds shall be subject to deductions and withholding tax for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, then such shall be for the account of the Bondholder concerned.

As part of President Duterte's administration's 10-point socioeconomic agenda, a comprehensive tax policy and administration reform is sought to be implemented. The tax reform plan proposes significant changes to the current tax system that seeks to reduce tax rates, the impact of which will be compensated by measures that will broaden tax base. In late 2016, the Department of Finance (DOF) submitted to Congress the first of six packages that make up its comprehensive tax reform plan, commonly known as the Tax Reform for Acceleration and Inclusion (TRAIN) bill. Package One of the TRAIN bill was signed into law in December 2017 and took effect in 2018.

The DOF has also indicated that it remains bullish regarding the submission of Package Four of its tax reform program to Congress. That package includes, among others, the proposal to simplify tax rates on investment products in the Philippines. The objective is to help improve services being offered to the public and address the complex tax rates of financial products by standardizing or rationalizing tax rates on deposit investments, dividends and equity. Given this, there can be no assurance that the amendment or removal of the exemption from the final withholding tax on interest income from long-term deposits or investments earned by certain individuals or that the graduated rates applicable in case of pre-termination will be maintained. Furthermore, there can be no assurance that such amendments will not affect the yield of the Bonds.

#### **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 Bonds are maintained in scripless form through the Registrar, and persons classified as U.S. persons under FATCA are considered Prohibited Bondholders, 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 Bonds 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 Bonds may not be affected by FATCA.

## **USE OF PROCEEDS**

The net proceeds of the issuances under the Programme, after deducting fees, commissions and other related expenses will be used and/or allocated by the Bank to support asset growth, re-finance maturing liabilities, and other general funding purposes.

## GENERAL TERMS AND CONDITIONS



### GENERAL TERMS AND CONDITIONS OF THE RIZAL COMMERCIAL BANKING CORPORATION PESO-DENOMINATED BONDS UNDER THE BOND AND COMMERCIAL PAPER PROGRAMME

These Peso-Denominated Bonds within the unissued balance of ₱69.5 billion (the “Programme Limit” as may be amended from time to time) under the ₱100 billion Bond and Commercial Paper Programme of Rizal Commercial Banking Corporation (the “Bank”, “Issuer”, and “RCBC”) are being issued by the Bank in favor of the Trustee for the benefit of the Bondholders (as defined below) in accordance with these General Terms and Conditions, the Contracts and the Governing Regulations. For the avoidance of doubt, the Existing Bonds (as defined below) are not covered and are not governed by these General Terms and Conditions and the Contracts.

#### 1.0 Definitions and Interpretation

(a) When used in these General Terms and Conditions:

**Accreted Value** means the present value of the zero-coupon bonds including compounded interest thereon as of a relevant date, calculated in accordance with the following formula:

$$\text{Accreted Value} = R * (1 + X/4)^A * (1 + X/4)^{((B \times 30 + C)/90)}$$

where:

“R” is equal to the Issue Price; and

“X” is equal to the Yield-to-Maturity; and

“A” is equal to the number of full 3-month periods (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from and including the Issue Date to, but excluding the date upon which the zero-coupon bonds are declared immediately due and payable, and which assumes a quarterly calculation unless otherwise indicated in the Pricing Supplement; and

“B” is equal to (i) the number of full months (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from and including the Issue Date to, but excluding the date upon which the zero-coupon bonds are declared immediately due and payable, minus (ii) “A” multiplied by three; and

“C” is equal to the number of days calculated as the difference between (i) the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from and including the Issue Date, to, but excluding the date upon which the zero-coupon bonds are declared immediately due and payable, and (ii) the sum of “A” multiplied by 90 plus “B” multiplied by 30.

**AMLC** means the Anti-Money Laundering Council created to implement the Anti-Money Laundering Laws of the Philippines;

**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, 302, 495, 527, 564, 608, 612, 706,



794, 950, and 1022, and all other amendatory laws and implementing rules and regulations, jurisprudence, notices, or orders of any Philippine governmental body relating thereto;

**Arrangers** means, collectively, the relevant Arranger/s and the relevant Lead Arranger/s and Bookrunner/s appointed by the Issuer from time to time. For the avoidance of doubt, the term “**Arranger**” shall refer to such entities appointed by the Bank as Arranger for the establishment, maintenance, and update of the Programme, and for purposes of the Programme Agreement are The Hongkong and Shanghai Banking Corporation Limited and RCBC Capital Corporation (as “**Joint Arrangers**” for the Programme). On the other hand, the term “**Lead Arranger and Bookrunner**” shall refer to such entities appointed by the Bank as Lead Arranger and Bookrunner for the management of the offering and issuance of a Series or Tranche of Bonds as indicated in the relevant Issue Management and Placement Agreement and the applicable Pricing Supplement for the relevant Series or Tranche. Such terms shall be references to the Lead Arranger/s and Bookrunner/s with whom the Bank has agreed to issue and purchase of such Bonds/Commercial Papers as indicated in the relevant Issue Management and Placement Agreement and the applicable Pricing Supplement for the relevant Series or Tranche but excludes any entity whose appointment has been terminated pursuant to the relevant provisions of the Programme Agreement or the Contracts as applicable;

**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;

**BIR** means the Bureau of Internal Revenue of the Philippines;

**BSP** means the *Bangko Sentral ng Pilipinas*;

**Benchmark Rate** means the relevant BVAL rate (or its successor benchmark) as determined by the Paying Agent for a particular Interest Period, as applicable and referred to in the Pricing Supplement, and which refers to the Bloomberg Valuation Reference Rates as shown in PDEX1 page of Bloomberg as of 4:30 pm on Interest Setting Date. The Paying Agent shall give the Issuer (for its confirmation) and the Registrar written notice of the Benchmark Rate and the basis thereof no later than [5:00 P.M.] of a relevant Interest Setting Date;

**Bond and Commercial Paper Programme** means the programme established by the Bank for the issuance of bonds and commercial papers in accordance with the applicable Governing Regulations;

**Bond Certificate** means the certificate to be issued by the Bank to the Trustee evidencing and covering such amount corresponding to a Series or Tranche of Bonds issued on the relevant Issue Date, and when issued in relation to Commercial Papers, is to be referred to as a **CP Certificate**;

**Bondholder** means a person who is not a Prohibited Bondholder and who, at any relevant time, appears in the Registry as the registered owner of a Bond issued under a specific Series or Tranche of Bonds;

**Bonds** means the bonds or commercial papers issued pursuant to the Programme which has such maturity and interest rate as may be agreed upon by the Bank and the relevant Lead Arranger/s and Bookrunner/s evidenced by a corresponding Bond Certificate. For purposes of the Programme and the Contracts, the term Bonds shall include, as appropriate and applicable, Commercial Papers. These Bonds can be issued, without limitation, with a fixed or floating interest rate, as zero-coupon bonds, green, social, or sustainable bonds. Only such Bonds issued within the Programme Limit will be governed by these General terms and Conditions and the Contracts. For the avoidance of doubt, the Existing Bonds are excluded from the term Bonds.

**BSP** means the *Bangko Sentral ng Pilipinas*;

**Business Day** means any of the days in a week, other than Saturday or Sunday, and public holidays on which commercial banks, the Philippine Clearing House Corporation, and foreign exchange markets in Metro Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified shall mean calendar days;

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

**Cash Settlement Bank** means a bank licensed and authorized under the laws of the Philippines and designated by the Bondholder 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 8(b)(i) and 8(b)(ii), during which no person may request any transfer of Bonds to be recorded in the Registry, and no transfers of Bonds may be recorded in such Registry;

**Commercial Paper/s** means the commercial papers issued pursuant to the Programme which has a maturity of one year or less and issued typically at a discount from its face value as may be agreed upon by the Bank and the relevant Lead Arranger/s and Bookrunner/s evidenced by a corresponding Bond CP Certificate and Pricing Supplement;

**Contracts** means insofar as the Bonds to be issued within the Programme Limit are concerned: (a) the Programme Agreement among the Bank, the Joint Arrangers, and the Initial Selling Agents dated on or about 17 March 2020; (b) the Registry and Paying Agency Agreement between the Bank and the Registrar and Paying Agent dated on or about 17 March 2020; (c) the Trust Agreement between the Bank and the Trustee dated on or about 17 March 2020; (d) the Bond Certificate for each Series or Tranche of Bonds; (e) these General Terms and Conditions, including amendments thereto; (f) the Pricing Supplement for each Series or Tranche of Bonds; (g) the relevant Issue Management and Placement Agreement; and (h) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto. For the avoidance of doubt, the Existing Bonds are not to be covered by and are not to be governed by these General Terms and Conditions and the Contracts;

**Early Redemption Amount** means, in the case of Fixed and Floating Rate Bonds, an amount equal to the aggregate issue price, plus accrued and unpaid interest as of the Early Redemption Date, and, in the case of zero-coupon bonds, the Accreted Value;

**Early Redemption Date** means a date falling on an [Interest Payment Date] when the Early Redemption Option is exercised by the Bank; provided, that if any Early Redemption Date is not a Business Day, then the Early Redemption Amount or the Accreted Value, as applicable, will be paid on the next succeeding Business Day without any adjustment as to the amount of yield, interest, or coupon to be paid;

**Early Redemption Option** means the option of the Bank to pre-terminate and redeem the Bonds in whole, but not in part, before Maturity Date at the Early Redemption Amount or the Accreted Value, as applicable, on any Early Redemption Date, subject to the provisions of the Governing Regulations;

**Event of Default** means an event specified as such in Condition 11;

**Existing Bonds** means such bonds under the Bond and Commercial Paper Programme in the aggregate principal amount of Thirty Billion Five Hundred Million Pesos (₱30,500,000,000) that have been previously issued in three tranches (and are currently outstanding) with the following principal amounts, respectively, Fifteen Billion Pesos (₱15,000,000,000) on 1 February 2019, Eight Billion Pesos (₱8,000,000,000) on 4 June 2019, and Seven Billion Five Hundred Million Pesos (₱7,500,000,000) on 13 November 2019. For the avoidance of doubt, the Existing Bonds are not covered by and are not governed by these General Terms and Conditions and the Contracts.

**External Auditors** mean the authorized third-party auditors of the Issuer, currently being Punongbayan & Araullo;

**Final Redemption Amount** means in the case of Fixed and Floating Rate Bonds, 100% of the aggregate nominal amount of the Bonds, plus accrued and unpaid interest up to, but excluding, the Maturity Date, and in the case of zero-coupon bonds, the face value of the zero-coupon bonds determined up to but excluding the Maturity Date;

**General Terms and Conditions** means in relation to any Series or Tranche of Bonds (excluding the Existing Bonds), these terms and conditions endorsed on or incorporated into the Bond Certificate constituting each Series or Tranche, as may be modified or supplemented by the relevant Pricing Supplement;

**Governing Regulations** means all the necessary rules and guidelines for the issuance of the Bonds, including, where applicable, the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks (“**MORB**”), BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), BSP Memorandum No. M-2020-01, SEC Memorandum Circular (“**MC**”) No. 12 (Series of 2018), SEC MC No. 08

(Series of 2019) on the Guidelines on the Issuance of Bonds under the ASEAN Bonds Standards in the Philippines, SEC MC No. 9 (Series of 2019), and any other circulars and regulations as may be relevant for the issuance of any Series or Tranche of Bonds, as these may be amended from time to time;

**Group** means the Issuer and its Subsidiaries, taken as a whole, and each of them being a member of the Group;

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

**Initial Selling Agents** means each of RCBC and The Hongkong and Shanghai Banking Corporation Limited, and their respective successor entities;

**Interest** means for any Interest Period, the interest payable on the Fixed or Floating Rate Bonds or the Yield-to-Maturity in the case of zero-coupon bonds, as reflected in the relevant Pricing Supplement;

**Interest Payment Date** means, in respect of any Series or Tranche of Bonds, the last day of a particular Interest Period when interest in respect of the relevant Series or Tranche of Fixed or Floating Rate Bonds is due and payable to the Bondholders as set out in the relevant Bond Certificate and Pricing Supplement, except that the last Interest Payment Date shall be on the Maturity Date provided, that if any Interest Payment Date is not a Business Day, then interest will be paid on the next succeeding Business Day without any adjustment as to the amount of interest to be paid;

**Interest Period** means, in respect of any Series or Tranche of Bonds, 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 (i) in the case of Fixed Rate Bonds, the rate per annum as indicated in the relevant Bond Certificate to be issued by the Bank, being the fixed per annum rate payable to the Bondholders for the entire tenor of a Series or Tranche of Bonds, and (ii) in the case of Floating Rate Bonds, for each relevant Interest Period, the rate of interest equivalent to the applicable Benchmark Rate plus [a fixed spread] per annum on the outstanding principal of the Floating Rate Bond, to be repriced and redetermined on each Interest Rate Setting Date;

**Interest Rate Setting Date** means in the case of Floating Rate Bonds, the Interest Payment Date for the immediately preceding Interest Period, provided, that for the first Interest Period, the Interest Setting Date shall be a date prior to Issue Date;

**Issue** means the issuance of a Series or Tranche of Bonds by the Bank pursuant to these General Terms and Conditions and the relevant Pricing Supplement;

**Issue Date** means, with respect to any Series or Tranche of Bonds, the date of issuance of such Series or Tranche of Bonds, pursuant to and in accordance with the Programme Agreement as set out in the relevant Pricing Supplement, or such other date as the Bank may advise the Registrar and Trustee in writing;

**Issue Management and Placement Agreement** means the agreement executed in relation to each Series or Tranche of Bonds which sets out the terms on which the Bank shall engage the relevant Lead Arranger/s and Bookrunner/s and Selling Agents appointed for the issuance of a particular Series or Tranche of Bonds;

**Issue Price** means the price of a Series or Tranche of Bonds that is at par or 100% of face value, or if a zero-coupon bond, at a discount to the face value thereof, as set out in the relevant Bond Certificate and Pricing Supplement;

**Majority Bondholders** means the holder or holders of more than fifty percent (50%) of the principal amount of the Bonds within a particular Tranche or Series then outstanding. For the avoidance of doubt, the Bondholders under the entire Programme will not be aggregated for purposes of determining a Majority Bondholder;

**Material Adverse Effect** means a material adverse effect on the operations, activities, business, properties, liabilities, condition (financial or otherwise), results of operations, general affairs or prospects of the Issuer and its Subsidiaries, taken as a whole, whether or not arising in the ordinary course of business; or the implementation

of the issuance of the Bonds; or the ability of the Issuer to perform and observe its obligations under the Contracts or the Bonds.

**Maturity Date** means the date at which the Series or Tranche of Bonds will be redeemed in accordance with the relevant Bond Certificate and the relevant Pricing Supplement; provided, that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day, without adjustment to the amount of interest to be paid;

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

**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 Governing Regulations and includes its successor entity, or any replacement Paying Agent;

**Payment Account** means, in respect of a Series or Tranche of Bonds issued pursuant to the Programme, 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 Bondholders, into which the Issuer shall deposit the amount of the interest and/or principal and other payments due on the Bonds on the relevant dates and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders;

**Payment Bank** means, in respect of any Series or Tranche of Bonds, a duly-licensed bank designated by the Issuer, where the relevant 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 Bondholder on each relevant Payment Date;

**PDEX** means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the 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 by Republic Act No. 10846, 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;

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

**Pricing Supplement** means the pricing supplement issued in relation to each Series or Tranche of Bonds, which gives details of such Series or Tranche and, in relation to any particular Series or Tranche of Bonds, “relevant Pricing Supplement” means the Pricing Supplement applicable to that Series or Tranche, such as Interest Rate, Interest Payment Dates, Tenor and Maturity Date and such other similar series-specific terms, in relation to any particular Series or Tranche of Bonds;

**Programme** means, as of the date of the Programme Agreement, the Bond and Commercial Paper Programme established by the Bank for the issuance of Bonds from time to time and as implemented by, among others, this Programme Agreement and the Contracts, with the aggregate principal amount of ₱100,000,000,000, with remaining unissued amount ₱69,500,000,000, as updated or amended from time to time;

**Programme Agreement** means the Programme Agreement executed among the Issuer, the Joint Arrangers and the Initial Selling Agents dated on or about 17 March 2020, as may be modified, supplemented, or amended from time to time as this applies to the Bonds to be issued within the Programme Limit. For the avoidance of doubt,

the Existing Bonds are not covered by and are not governed by the Programme Agreement, these General Terms and Conditions and the Contracts.

**Prohibited Bondholders** means persons and entities which are prohibited from purchasing and/or holding the Bonds pursuant to regulations governing the Bank, specifically:

- (1) the Issuer including its related parties as defined in the MORB, including but not limited to (i) subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the Issuer exerts direct/indirect control over or that exerts direct/indirect control over the Issuer, (ii) the Issuer's directors, officers, stockholders, and their related interests ("DOSRI"), and their close family members, as well as corresponding persons in affiliated companies including such other person/juridical entity whose interests may pose potential conflict with the interest of the Issuer, (iii) linkages to the foregoing, whether direct or indirect as defined in the MORB, except where the Issuer purchases and cancels the Bonds under the conditions listed in Condition 5(b)(iii) of these General Terms and Conditions; or
- (2) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding, or transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEX, BSP, AMLC, or other government regulation in any relevant jurisdiction; or
- (3) 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 ("FATCA"), 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 31 days in the current calendar year or a total of 183 days over the previous three 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; or (f) any other person that is not a non-US person under the FATCA; or
- (4) persons classified as a Restricted Party.

For purposes of the definition of Prohibited Bondholders, a **subsidiary** means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An **affiliate** means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be **controlled** by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;

**Purchaser** means a prospective primary Bondholder who intends to purchase Bonds, as applicable, in the primary market through the Selling Agents and submits an Application to Purchase for that purpose;

**Record Date** means as used with respect to any relevant payment date, two (2) Business Days immediately preceding such Payment Date, which shall be the cut-off date in determining the existing Bondholders entitled to receive interest, principal, and other payments due, or such other date duly notified by the Issuer;

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

**Registry** means, in relation to any Series or Tranche of Bonds, the electronic records of the Registrar bearing the official and best evidence of information of the names and other details of the Bondholders and the amount of Bonds held by each holder, including records of all transfers and transactions in respect of the Bonds;

**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 Bonds, including any amendment or supplement thereto;

**Registry Confirmation** means, in relation to any Series or Tranche of Bonds, the written advice to be sent by the Registrar to the Bondholders, 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 issued with alterations or signatureless when computer-generated, confirming the details and summary terms and conditions of Bonds registered in the Registry in the name of a Bondholder. 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: (a) listed on, or owned or controlled by a person or persons listed on, or acting on behalf of a person or persons listed on, any Sanctions List; (b) 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, including, without limitation, the Crimea Region, Cuba, Iran, North Korea, Sudan and Syria; or (c) 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; (vi) the Hong Kong Monetary Authority; or (vii) 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;

**SEC** means the Philippine Securities and Exchange Commission;

**Securities and Regulation Code** refers to Republic Act No. 8799 and its implementing rules and regulations, as the same may be amended from time to time;

**Selling Agent** means with respect to each Series or Tranche of Bonds, each or any one of the entity/ies which the Issuer may appoint as selling agent of such Series or Tranche of Bonds as specified in the Issue Management and Placement Agreement and the relevant Pricing Supplement, and includes the Initial Selling Agents for the first Tranche of Bonds;

**Series** means a Tranche of Bonds, as the case may be, together with any further Tranche or Tranches of Bonds, as the case may be, which are (a) expressed to be consolidated and form a single series, and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices and the expressions Bonds of the relevant Series, Bondholders of the relevant Series, and related expressions shall (where appropriate) be construed accordingly;

**Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer controls (by contract or otherwise) a majority of the voting rights, or (iv) which at any time has its accounts consolidated with those of the Issuer or which, under the law, regulations or generally accepted accounting principles of the jurisdiction of incorporation of such person from time to time should have its accounts consolidated with those of the Issuer, and includes any company which is a Subsidiary of a Subsidiary of the Issuer;

**Trading Participant** means a trading participant of PDEX defined as such under the rules and regulations of PDEX;

**Tranche** means all Bonds which are identical in all respects (including as to listing and admission to trading);

**Trust Agreement** shall mean the indenture or agreement to be executed by and between the Issuer and the Trustee to stipulate on the rights and obligations of the Trustee with respect to the Bonds and the Bondholders;

**Trustee** shall mean the Trust Banking Group of the Development Bank of the Philippines as appointed by the Bank for each Series or Tranche of Bonds in accordance with the Trust Agreement and Pricing Supplement and the Governing Regulations; and

**Yield-to-Maturity** means the fixed per annum rate in respect of the zero-coupon bonds, as calculated on a quarterly, 30/360 basis, and is the basis in determining the Issue Price and the Final Redemption Amount of the zero-coupon bonds; it will be fixed for the life of the Bonds and shall be such yield-to-maturity as determined.

All terms defined in these General 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. Titles of provisions in these General 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 General Terms and Conditions, and to a Condition or Conditions in these General 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 General Terms and Conditions, except as set out herein.

## **2. Form, Denomination, and Title**

### **(a) Form and Denomination**

The Bonds will be issued pursuant to the terms of the Trust Agreement and these General Terms and Conditions in a minimum investment size, increments of in excess thereof, and denominations of trading in the secondary market as indicated in the Pricing Supplement. Registry Confirmations will be issued in accordance with the Registry and Paying Agency Agreement and will contain a unique transaction reference number.

A Bond Certificate representing the Bonds shall be issued to and registered in the name of the Trustee, on behalf of the Bondholders, a copy of which shall be lodged with the Registrar.

### **(b) Bondholders**

The Bonds may only be issued and transferred to investors who are not Prohibited Bondholders.

### **(c) Title**

Title to the Bonds shall be indicated in the Registry maintained by the Registrar. The Registry shall be the best evidence of ownership and transactions with respect to the Bonds. The initial placement of the Bonds and subsequent transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing from time to time.

## **3. Status and Ranking**

The Bonds constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable pursuant to the terms of the Trust Agreement and these General 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 other than the preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines.

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

#### **4. Interest / Yield**

##### **(a) Interest Accrual**

The Fixed and Floating Rate Bonds shall bear relevant 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 Fixed and Floating Rate Bonds shall continue to bear interest in accordance with these General Terms and Conditions until all sums in respect of such Bond are received by or on behalf of the relevant Bondholder.

The Floating Rate Bonds shall bear such applicable Interest Rate for the Interest Period concerned on its principal amount, which Interest Rate shall be to be repriced and redetermined on each Interest Rate Setting Date.

##### **(b) Interest Payment Dates**

Interest on the Fixed and Floating Rate Bonds shall be payable on each relevant Interest Payment Date as specified in the Pricing Supplement; provided that, if any Interest Payment Date or the Maturity Date is not a Business Day, then interest will be paid on the next succeeding Business 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 Fixed and Floating Rate Bonds for each Interest Period shall be determined by the Registrar by applying the Interest Rate to the principal amount of the Bonds, 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's and Paying Agent's system algorithm.

In the case of Floating Rate Bonds, the [Calculation / Paying Agent] shall, no later than the deadline for determination as provided in these Terms and Conditions, send written notice to the Issuer and the Paying Agent of the applicable Interest Rate for the Floating Rate Bonds for each Interest Period.

##### **(d) Yield-to-Maturity**

- (i) The zero-coupon bonds shall bear the Yield-to-Maturity for its entire tenor from and including the Issue Date to until the Maturity Date, unless otherwise subject to Early Redemption.
- (ii) The zero-coupon bonds do not bear any periodic coupon or any periodic interest during its tenor. Zero-coupon Bondholders shall realize the full Yield-to-Maturity upon payment of the Final Redemption Amount on Maturity Date. If either of the Early Redemption Date or the Maturity Date (as the case may be) is not a Business Day, then amounts due on that date will be paid on the next succeeding Business Day without any adjustment as to the amount of Yield-to-Maturity to be paid.

#### **5. Redemption, Early Redemption, and Purchase**

##### **(a) Redemption at Maturity Date**

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

##### **(b) Early Redemption: Purchase**

- (i) *Early Redemption Option due to Change in Tax.* If any payment of principal or interest due under the Bonds 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, such event shall be considered as change in taxation ("Change in Tax") in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds.



- (ii) *Early Redemption Option due to Change in Law or Circumstance.* If any provision of the Trust Agreement or any of the Contracts is, or shall become, for any reason, invalid, illegal, or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties of their obligations under the Trust Agreement or any other related documents, such event shall be considered as change in law or circumstance (“Change in Law”) in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds.

In the event that the Bank invokes the Early Redemption Option under Condition 5(b)(i) (*Change in Tax*) or 5(b)(ii) (*Change in Law*), the Bank shall provide the Trustee an opinion from a reputable legal counsel (reasonably acceptable to Trustee) confirming the bases therefor. Thereupon, the Trustee, upon notice to the Bank, shall declare the principal amount of the Bonds, including all accrued interest and other charges thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Agreement and other related documents to the contrary.

- (iii) *Purchase and Cancellation.* The Bank may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders, and the Bondholders shall not be obligated to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. For the avoidance of doubt, the Bank may not directly or indirectly purchase the Bonds in any instance for the purpose of trading or market making.
- (iv) *Manner of Exercising the Early Redemption Option.* In exercising the Early Redemption Option, the Bank shall give to the Bondholders through the Trustee, the Registrar, and, to the extent required under the Governing Regulations, 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 5(b)(i) or (ii). The notice referred to in this Condition 5(b)(iv) shall be published in at least two (2) 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 to the exercise of such Early Redemption Option. Once issued, said notice shall be irrevocable, and shall be binding on the Bank and each Bondholder.
- (v) *Payments; Taxes.* After the issuance of the notice under Condition 5(b)(iv), the Bank shall be obliged to repay all of the Bonds 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 Bondholders in the Bonds to the Bank. All such Bonds pre-terminated pursuant to this Condition 5(b) shall then be deemed fully redeemed and cancelled.

As a consequence of the exercise of the Early Redemption Option under Condition 5(b)(i) and (ii), any incremental tax that may be due on the interest income already earned under the Bonds 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.

- (vi) *No Pre-termination by Bondholders.* Except as otherwise contemplated under Condition 12 on account of the occurrence of an event described under Condition 11 (“Events of Default”), none of the Bondholders shall have the right to require the Bank to redeem and repay any or all of the Bonds before the Maturity Date. In accordance with the Governing Regulations, transfers of the Bonds to a person other than the Bank shall not constitute pre-termination. To the extent applicable, for tax purposes, however, negotiations/transfers from a Bondholder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended, and the applicable Bureau of Internal Revenue (BIR) regulations (the “Tax Code”).

## **6. Payments**

- (a) Principal and interest (as applicable) as specified in the Pricing Supplement, and all other amounts payable on the Bonds 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 Bonds shall be drawn by the Paying Agent from the Payment Account and shall be made in Philippine Pesos.

## **7. Taxation**

- (a) Interest income on the Bonds is subject to a final withholding tax at rates ranging from 20% to 30% depending on the tax status of the relevant Bondholder under relevant law, regulation, or tax treaty. Subject to Condition 8, if any payments of principal and/or interest in respect of the Bonds shall be subject to deductions and/or withholdings for or on account of any present or future 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 income, 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 Bondholder 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 Bondholder 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 Bondholder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer as provided below.
- (b) As issuer of the Bonds, the withholding of final tax on the interest due on the Bonds is the responsibility of the Bank pursuant to Section 57 of the Tax Code, and Section 2.57 of Revenue Regulations No. 2-98, as amended. The Bank may 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 the following:
  - (i) Income tax on any gain by a Bondholder realized from the sale, exchange, or retirement of the Bonds;
  - (ii) The applicable final withholding tax on interest earned on the Bonds prescribed under the Tax Code;
  - (iii) Gross Receipts Tax under Section 121 of the Tax Code;
  - (iv) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
  - (v) Value Added Tax ("VAT") under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337.
- (d) Documentary stamp tax for the primary issue of the Bonds and the execution of the Trust Agreement and other Bond Agreement, if any, shall be for the Bank's account.
- (e) The tax exemption or preferential tax treatment of Bondholders claiming exemption from any applicable tax or preferential rates shall be implemented only upon submission of the following documents to the Registrar and Paying Agent:
  - (i) Proof of tax exemption or entitlement to preferential tax rates:

- For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current, and subsisting tax exemption certificate, ruling, or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof;
  - For Tax-Exempt Personal Equity Retirement Account established pursuant to the PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator;
  - For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;
  - For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D));
  - Any other document that the Bank or PDTC may require from time to time; and
  - In addition, upon the request of the Issuer, Selling Agent, or the Registrar, as the case may be, the Bondholder shall submit an updated Part II (A), (B), (C), and (D) of the CORTT Form.
- (ii) A duly notarized declaration and undertaking, in the prescribed form, declaring and warranting its tax-exempt status, declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is specifically subject to a preferential tax rate for the relevant tax, and undertaking to immediately notify the Bank and the Registrar of any suspension, revocation, or modification of its tax exemption or treaty privileges, 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 or reduced 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.

## **8. Transfers of Bonds**

### **(a) Transfers**

All transfers of the Bonds 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 Bonds to a person other than the Bank shall not constitute pre-termination.

### **(b) Closed Periods**

No person may require the transfer of any Bonds to be registered by the Registrar in the Registry: (i) during the period of two (2) Business 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) Business Days preceding any Interest Payment Date. The Registrar will prevent any transfer of the Bonds to be recorded in the Registry during any Closed Period. The Registrar shall recognize and treat only those Bondholders registered as such in the Registry as of the relevant Record Date as the owners of the corresponding Bonds for any relevant payment or allocation purpose.

(c) Registry: Legal Title and Transfers

The Registry shall be kept at the specified office of the Registrar and shall contain the names and addresses of the Bondholders, the particulars of the Bonds held by them, as well as all records of purchases and transfers of Bonds, whether Trade Related or Non-Trade Related. Title to the Bonds shall be shown in the Registry maintained by the Registrar. For purposes of this clause, the term “Trade Related” mean transactions on the Bonds other than Non-Trade Transactions executed through PDEX (upon listing of the Bonds), while Non-Trade Transactions means transactions relating to the Bonds under any of the following instances: (i) nomination or change of nominated custodian by the beneficial owner of the Bonds; (ii) succession, provided that the heirs and successors-in-interest present a court order of partition or deed of extrajudicial settlement and the proper documentation evidencing the payment of applicable taxes and a certificate authorizing the transfer of the Bonds from the Bureau of Internal Revenue (“BIR”); (iii) donation, provided that the donor presents a valid deed of donation and documents to evidence the payment of applicable taxes and a certificate authorizing the transfer of the Bonds from the BIR; (iv) request for recording or annotation of interests or liens on the Bonds of any party arising from transactions such as, but not limited to, pledge or escrow, provided that the pledgor or the beneficiary of the escrow shall present a proper contract of pledge or escrow agreement; and (e) such other transactions that may be deemed valid and “free of payment” transactions by PDTC; provided, that such transfer is not in violation of any law or regulation or made in circumvention thereof; Provided, further that, the burden of proving the validity of a “free of payment” transaction rests with the transferor of the Bonds.

Upon any transfer of the Bonds and subject to compliance with applicable conditions for transfers of the Bonds, including, but not limited to, the due execution and delivery by the transferor Bondholder of (i) a written instruction (in form and substance acceptable to the Registrar and Paying Agent and/or the Trading Participant) from a transferor-Bondholder to transfer all or part of the Bonds registered in its name; (ii) the delivery by the transferor-Bondholder of the transfer instructions required by the Registrar and Paying Agent pertaining to the Bonds 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 Registry, and new Registry Confirmations will be issued by the Registrar in favor of the transferees/purchasers of the affected Bonds. Upon such recording of the transfer, title shall then pass by registration to the transferee-Bondholder in the Registry.

Any costs associated with the settlement in respect of such transfer of the Bonds, including the settlement of taxes, if any, arising from subsequent transfers, shall be for the account of the transferor-Bondholder 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 Bondholder, assume that said Bondholder is taxable and proceed to apply the tax due on the Bonds. The Trading Participant and/or the Registrar may require the Bondholder claiming a preferential tax treatment to provide proof satisfactory to it of such preferential status. Notwithstanding the submission by the Bondholder, or the receipt by the Bank or any of its agents, of documentary proof of the tax-exempt status of a Bondholder, the Bank may, in its sole discretion, determine that such Bondholder is taxable and require the Registrar and Paying Agent to proceed to apply the appropriate tax due on the Bonds. Any question on such determination shall be referred to and be decided upon by the Bank.

(e) Change in Status

Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that transfers from a tax-exempt category to a taxable category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEX, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same tax category as its taxable counterpart for the interest period within which such transfer occurred. For purposes hereof, “tax categories” refer to the four (4) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, 25% tax-withheld entities, and 30% tax-

withheld entities, as may be amended. This restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented under PDEX.

In the case of a transfer by a taxable or non-tax-exempt Bondholder 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-Bondholder on the Bonds during the Interest Period in which the transfer is made, based on the period that such Bonds were actually held by the transferor-Bondholder, 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 Bond, if any, shall be for the account of the relevant Bondholder and/or its counterparties (and shall not be for the account of the Bank), to be deducted from the purchase price due to it.

Except as otherwise contemplated under Condition 12 on account of the occurrence of an event described under Condition 11 ("Events of Default"), none of the Bondholders shall have the right to require the Bank to redeem and repay any or all of the Bonds before the Maturity Date. In accordance with the Governing Regulations, transfers of the Bonds to a person other than the Bank shall not constitute pre-termination. To the extent applicable, for tax purposes, however, negotiations/transfers from a Bondholder to another shall be subject to the pertinent provisions of the Tax Code.

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 Bondholder claiming the exemption of such documentation as may be required under these General Terms and Conditions.

## 9. Representations and Warranties

The Bank hereby represents and warrants, as follows:

- (a) **Incorporation:** the Issuer and each Group member 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 this Offering Circular, and is lawfully qualified to do business in those jurisdictions in which business is conducted by each of them;
- (b) **Title to Property:** the Issuer and each Group member has legal and beneficial title to all its respective property in each case free and clear of all liens, encumbrances, and defects; and any real property and buildings held under lease by it or them are held by it under valid, subsisting, and enforceable leases;
- (c) **Corporate Power:** the Issuer has the corporate power under the laws of its incorporation and its constitutive documents to establish and update, as the case may be, the Programme, create and issue the relevant Series or Tranche of Bonds, 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 Contracts, and these General Terms and Conditions;
- (d) **Capacity:** the Issuer (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 establish the Programme, enter into and update the Contracts, and to carry out the transactions contemplated in the Contracts, and has taken and will continue to take all actions (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery, and performance of the Contracts;
- (e) **Validity of the Bonds and Contracts:** the establishment of the Programme, the issuance of the Bonds and the execution and delivery of the Contracts by the Issuer have been duly authorized by the Issuer and, the Bonds, upon due execution, issuance and delivery in accordance with the Trust Agreement and the Issue Management and Placement Agreement, will constitute valid and legally binding obligations of the Issuer enforceable in accordance with their terms, subject to the laws of bankruptcy, moratorium and other similar laws affecting the rights of creditors generally and general principles of equity;

- (f) **Programme Limit:** the principal amount of the relevant Series or Tranche of Bonds, when issued, does not exceed the unissued principal under the Programme Limit, and the outstanding principal amount of all bonds (including the Existing Bonds) under the Programme does not exceed the maximum aggregate principal amount under the Programme;;
- (g) **Status:** the Bonds will, upon issuance, constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Issuer, enforceable against it according to these General 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 other than the preference under Article 2244, paragraph 14(a) of the Civil Code of the Philippines;
- (h) **Form:** that the Bonds will, upon due execution, issue and delivery in accordance with the Contracts, be in proper legal form under the laws of the Philippines, and to ensure the legality, validity, enforceability and admissibility into evidence of the Contracts, it is not necessary that the Contracts, the Bonds or any other document or instrument be filed or recorded with any court or other authority in the Philippines;
- (i) **Consents:** except for (i) the disclosure notices to be filed with the Philippine Securities and Exchange Commission following the establishment and updates, as the case may be, of the Programme and the Contracts, issuance of the relevant Series or Tranche of Bonds and (ii) the payment of documentary stamp tax on the issuance of the relevant Series or Tranche of Bonds, as applicable, all necessary actions and things required to be taken, fulfilled or done for the issue of the relevant Series or Tranche of Bonds, the carrying out of the other transactions contemplated by the Contracts or the compliance by the Issuer with the terms of the Contracts (including with respect to the payment of principal and interest on the relevant Series or Tranche of Bonds, as the case may be) have been, or by the Issue Date, will be, taken, fulfilled or done;
- (j) **Approvals:** all approvals of any court, governmental agency, office, department, or other regulatory body required for the establishment and maintenance and updating of the Programme, the execution and delivery of the Contracts by the Issuer and the issuance and distribution of the relevant Series or Tranche of Bonds, and the performance of the terms of the Bonds and the Contracts by the Issuer have been obtained and are unconditional and in full force and effect, including without limitation, the final approval of the BSP to the extent that the final approval of the BSP is applicable;
- (k) **BSP and SEC Conditions:** it is compliant with all qualifications and conditions of the applicable Governing Regulations to establish and maintain and update the Programme, issue, maintain, service, pay out, redeem, and cancel each relevant Series or Tranche of Bonds, the Bonds, which qualifications and conditions continue to be complied with and that the establishment and maintenance and updating of the Programme, the issuance of the Bonds in the manner described in this Offering Circular and the issue of this Offering Circular in the manner provided in the Programme Agreement will comply, where relevant, with all applicable laws, governmental or other regulations of the Philippines;
- (l) **Compliance:** the establishment and maintenance and updating of the Programme, the execution and delivery of the Contracts, the issuance of the Bonds, the carrying out of the other transactions contemplated by the Contracts and these General 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 Issuer, or any contract, indenture, trust deed, mortgage, or other agreement or instrument to which the Issuer 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. The Issuer is in compliance with all applicable laws and regulations relating to the Philippine capital markets and recommendations and findings of the BSP;
- (m) **Offering Circular:** (i) this Offering Circular contains, and at the date of publication or issue contained, all material information with respect to the Issuer, the Group, the establishment and updates, as the case may be, of the Programme and the Contracts, and the relevant Series or Tranche of Bonds (including all information which is necessary to enable investors and their professional advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer,

the Group and the rights attaching to the relevant Series or Tranche of Bonds), (ii) each of this Offering Circular as of the Agreement Date (and if amended or supplemented, at the date of any such amendment or supplement) and any other materials for use in connection with the offering and sale of any Series or Tranche of Bonds and during the roadshow, investor meetings or presentations held by the Issuer used in the offering and sale of any Series or Tranche of Bonds (including, without limitation, any roadshow or electronic roadshow materials) (“Marketing Materials”) do not contain an untrue statement of material fact or omit to state a material fact that is necessary in order to make the statements made in this Offering Circular and any such materials, in the light of the circumstances under which they were made, not misleading and there is no other fact or matter omitted from this Offering Circular and the Marketing Materials which was or is necessary to enable investors and their professional advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer or the Group and of the rights attaching to the relevant Series or Tranche of Bonds; (iii) the other financial data set forth in this Offering Circular relating to the Issuer is accurately presented and prepared on a basis consistent with the consolidated financial statements and books and records of the Group; that the Issuer and each member of the Group 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 this Offering Circular; the Issuer and each Group member is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in this Offering Circular; (iv) all statistical and market related data included in this Offering Circular is based on or derived from sources that the Issuer reasonably believes to be reliable and accurate in all material respects, has been accurately extracted from such source and the Issuer has obtained the written consent to the use of such data from such sources to the extent required; (v) the statements of intention, opinion, belief or expectation contained in this Offering Circular and the Marketing Materials are honestly and reasonably made or held; and (vi) all reasonable enquiries have been made to ascertain such facts and to verify the accuracy of all such statements;

- (n) **Accounting Policies:** this Offering Circular accurately describes (i) accounting policies which the Issuer 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 Issuer have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in this Offering Circular and have consulted with their Auditors with regard to such disclosure;
- (o) **Accounting Controls:** the Issuer 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 affiliates 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 Issuer’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 Issuer, its subsidiaries, or affiliates has experienced any material difficulties with regard to (i) through (v) above;
- (p) **Financial Statements:** the most recently published audited consolidated financial statements of the Group (the audited accounts), and the most recently prepared unaudited interim consolidated financial statements of the Group and the other financial data extracted from such audited accounts and financial statements appearing in or incorporated by reference in this Offering Circular (i) were prepared in accordance with all applicable laws and accounting principles generally accepted in, and pursuant to the relevant laws of, the Philippines consistently applied; (ii) present a true and fair view of the financial condition of the Bank or the Group, as the case may be, as at the relevant dates at which they were prepared and the financial performance and cash flows of the Bank or the Group, as the case may be, as of and for the relevant periods in respect of which they have been prepared in accordance with accounting principles generally accepted in, and pursuant to the relevant laws of, the Philippines consistently

applied; and (iii) since the date of the last audited accounts appearing in or incorporated by reference in this Offering Circular, there has been no Material Adverse Effect or any development involving a prospective Material Adverse Effect in the business, properties, condition (financial or otherwise), results of operations, general affairs or prospects of the Group, whether or not arising in the ordinary course of business;

- (q) **Contingent Liabilities:** the Issuer, and each member of the Group, 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 this Offering Circular; the Issuer and each Group member is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in this Offering Circular;
- (r) **Off-balance Sheet Arrangements:** this 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 Issuer 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 Issuer 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 Issuer, its subsidiaries, or affiliates or the availability thereof or the requirements of the Issuer, its subsidiaries, or affiliates for capital resources;
- (s) **Provision of Information:** all information provided by the Issuer to its External Auditors required for the purposes of their comfort letters in connection with the offering and sale of the Bonds 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;
- (t) **Independence of Auditors:** the Issuer's External Auditors are independent public accountants, as required by the Philippine Institute of Certified Public Accountants, and the applicable rules and regulations thereof;
- (u) **Related Party Transactions:** all material transactions of the Issuer amongst it, and Group member, and its and their respective 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 and that the descriptions of the transactions under the caption "Related Party Transactions" (or other similar caption) in this Offering Circular are accurate descriptions in all material respects and fairly summarize the transactions described therein and do not omit any material information which affects the import of such descriptions;
- (v) **Licenses, Permits, and Conduct of Business:** each member of the Group (i) has all licenses, franchises, permits, authorizations, approvals, registrations and orders, and other concessions that are necessary to own or lease its properties and conduct its businesses as described in this 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 Philippine Deposit Insurance Corporation, and the Bureau of Internal Revenue; (iii) and, except as disclosed in this Offering Circular, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Issuer; 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 a Material Adverse Effect;
- (w) **Labor Disputes:** that no material labor dispute, work stoppage, slowdown or other conflict with the employees of the Issuer exists or, to the knowledge of the Issuer, is threatened or imminent;
- (x) **Insurance:** it maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks as are prudent and appropriate and as are usually carried by companies engaged in



similar business and owning similar properties in the same geographical areas as those in which the Issuer operates;

- (y) **Intellectual Property:** except as specifically described in this Offering Circular, each Group member 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 a Material Adverse Effect;
- (z) **Litigation:** except as specifically described in this Offering Circular, there are no pending or threatened actions, suits, or proceedings including tax claims against or affecting the Issuer, its subsidiaries, or affiliates or any of their properties which, if determined adversely, would individually or in the aggregate have a Material Adverse Effect, or have, or have had in the previous 12 months, either individually or in aggregate, significant effects on the financial position or profitability of the Issuer and/or the Group, or affect the ability of the Issuer to perform its obligations under the Contracts or the Bonds, or may affect in any manner the validity and enforceability of the Contracts, or which are otherwise material in the context of the issue of the Bonds; and, to the best of the Issuer'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 Contracts illegal or invalid or imposing any unreasonable conditions on the consummation of the transactions contemplated by the Contracts; and the Issuer has not taken any action nor have any steps been taken or legal proceedings commenced for its winding up or dissolution;
- (aa) **No Default:** that no Event of Default or event which with the giving of notice or lapse of time or other condition might constitute an Event of Default is subsisting in relation to any outstanding Bond, and no event has occurred which might constitute (after an issue of Bonds) an Event of Default thereunder, or which with the giving of notice or lapse of time or other condition might (after an issue of Bonds) constitute such an Event of Default;
- (bb) **Breach of Agreements:** the Issuer and each member of the Group is not in breach of the terms of, or in default under, any instrument, agreement, or order to which it or its property is bound, and no event has occurred which with the giving of notice or lapse of time or other condition would constitute a default under any such instrument, agreement or order;
- (cc) **Taxes:** (i) each of the Issuer and each member of the Group has paid all taxes applicable to it and filed all tax returns required to be paid or filed through the date hereof; and (ii) there is no tax deficiency that has been, or could reasonably be expected to be, asserted against any member of the Group or any of their respective properties or assets, except in each of (i) and (ii) for such taxes which are being contested in good faith or where the failure to pay or file or such tax deficiency that would not, individually or in the aggregate, have a Material Adverse Effect;
- (dd) **Immunity:** in any proceedings taken in relation to, or arising out of, the Contracts and the Bonds, none of the Issuer nor any of its Subsidiaries, nor any of their respective properties, assets or revenues has any right of immunity, on the grounds of sovereignty or otherwise, from any legal action, suit or proceeding;
- (ee) **Anti-money Laundering and compliance with Laws:** the operations of the Issuer and its Subsidiaries are and have been conducted at all times in compliance with applicable laws, financial record keeping and reporting requirements and the Anti-Money Laundering Laws of the Philippines, and of all jurisdictions in which the Issuer 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 specifically described in this Offering Circular, no action, suit or proceeding by or before any court or governmental agency, authority, or body or any arbitrator involving the Issuer or any of its Subsidiaries with respect to Money Laundering Laws is pending and, to the best of the knowledge of the Issuer after making all due and careful enquiries, no

such actions, suits, or proceedings are threatened or contemplated. The Issuer shall notify the relevant Arranger and Selling Agents of any breach of laws, or any action, investigation, or proceeding with respect to any breach of laws;

- (ff) **Anti-Bribery:** neither the Issuer nor any of its Subsidiaries, nor any director, officer, agent, employee, affiliate or other person associated with or acting on behalf of the Issuer or any of its Subsidiaries, has used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity; made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; violated or is in violation of, or is aware of any action, directly or indirectly that could result in a violation of, any provision of or any applicable anti-bribery or anti-corruption laws and/or regulations enacted in any jurisdiction applicable to the Issuer including without limitation, the U.S. Foreign Corrupt Practices Act of 1977 (the FCPA), the UK Bribery Act (the UKBA) or comparable laws or regulations of the Philippines, each as may be amended, or the rules or regulations thereunder (“Anti-Bribery and Corruption Laws”); or made, offered or promised to make or authorized the payment or giving of any bribe, rebate, payoff, influence payment, facilitation payment, kickback or other unlawful payment or gift of money or anything of value prohibited under any applicable law or regulation equivalent to the FCPA, the UKBA or comparable laws or regulations of the Philippines (Prohibited Payment) and the Issuer and its Subsidiaries have instituted and maintain policies and procedures to ensure compliance therewith;
- (gg) **Sanctions:** neither the Issuer, nor any of its subsidiaries, affiliates, or joint ventures, nor any of their respective director, officer, or any employees nor, to the knowledge of the Issuer, 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.
- (hh) **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 the Programme 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 Issuer or the relevant Arranger and Bookrunner 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
- (ii) **Solvency:** each member of the Group 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 Issuer 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 Issuer is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Issuer 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 Issuer is engaged; (v) the Issuer will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) the Issuer is not a defendant in any civil action that would result in a judgment that the Issuer is or would become unable to satisfy.

These representations and warranties are true and correct as of the date of this Offering Circular and as of each relevant Issue Date and shall remain true and correct as long as the Bonds remain outstanding, by reference to the facts and circumstances then existing.

## 10. Covenants

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

- (a) **Payment:** it shall pay all amounts due under the Bonds and the Contracts at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Bonds and the Contracts;
- (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) **Negative Pledge:** it shall, for as long as the Bonds or any portion thereof remain outstanding, unless it has obtained prior consent in accordance with these General Terms and Conditions, and subject to the notification and ranking Conditions 3 and 9(f) of these General Terms and Conditions:
  - a. It will not create or permit to subsist any mortgage, charge pledge, lien or other form of encumbrance or security interest (“Security Interest”) upon the whole or any part of its undertaking, assets or revenues (present or future) to secure any Indebtedness, or any guarantee of or indemnity in respect of any Indebtedness;
  - b. It will procure that no other person creates or permits to subsist any Security Interest upon the whole or any part of the undertaking, assets or revenues present or future of that other person to secure (x) any of the Issuer’s Indebtedness, or any guarantee of or indemnity in respect of any of the Issuer’s Indebtedness, or (y) where the person in question is a Subsidiary of the Issuer, any of the Indebtedness of any person other than that Subsidiary, or any guarantee of or indemnity in respect of any such Indebtedness, unless, at the same time or prior thereto, the Issuer’s obligations under the Bonds (i) are secured equally and ratably therewith or benefit from a guarantee or indemnity in substantially identical terms thereto, as the case may be, or (ii) have the benefit of such other security, guarantee, indemnity or other arrangement as approved in accordance with these General Terms and Conditions; and
  - c. It will not create or permit to subsist any preference or priority in respect of any other Indebtedness of the Issuer pursuant to Article 2244(14)(a) of the Civil Code of the Philippines, or any successor Philippine law providing for preferences or priority in respect of notarized Indebtedness unless amounts payable under the outstanding Bonds are granted preference or priority equally and ratably therewith.
- (e) **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 Bondholders 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 Bonds;
- (f) **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 a Material Adverse Effect;
- (g) **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;

- (h) **Use of Proceeds:** it shall use the net proceeds from the Bonds in accordance with the purpose of issuance provided in this 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 Bondholders, through the Trustee, 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 a Material Adverse Effect; and (ii) of any other matter or condition affecting the Bank which may have a Material Adverse Effect, immediately upon becoming aware that the same has occurred, is pending or has been commenced;
- (k) **Contracts:** it shall ensure that any documents related to the Bonds 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 Bondholder, execute and deliver to such Bondholder the reports, documents, and other information respecting the business, properties, condition, or operations, financial or otherwise, of the Bank as a Bondholder 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 Contracts, serve a written notice to the Bondholders, through the Trustee, 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 disclosure 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 Bonds and the Contracts;
- (o) **Information and Warranties:** it will immediately notify the Bondholders, 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 9 of these General 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 Bonds, 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 Governing Regulations and the Contracts; *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) **Listing:** it shall ensure that the Bonds are listed (or enrolled as the case may be) with PDEX unless applicable laws no longer require listing or enrollment of such Bonds with an exchange, and delisting is approved by the Bondholders through a meeting duly called for such purpose, in accordance with these General Terms and Conditions;

- (s) **Government Agency Orders:** it shall promptly advise the Bondholders, through the Trustee of: (i) any request by any government agency for any information related to the Bonds; or (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the Bonds 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 Bonds at the earliest time possible;
- (t) **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 these General Terms and Conditions 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 relevant Lead Arranger/s and Bookrunner/s 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

- (u) **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 Governing Regulations or any of the Contracts.

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

## 11. Events of Default

A Bondholder shall have the right to declare the Bank in default, insofar as the Bonds registered under such Bondholder's name is concerned, in accordance with Condition 12, in case any of the following events shall occur and be continuing:

- (a) The Bank fails to pay any principal and/or interest (as applicable) due on the Bonds; provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date;
- (b) Unless otherwise redeemed by the Bank under Condition 5(b)(ii), it becomes unlawful for the Bank to perform or comply with any one or more of its obligations under the Bonds;
- (c) The Bank fails to perform or violates its covenants (other than Condition 11(a)) under these General 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;
- (d) Any of the Bank's representations and warranties under Condition 9 or any certificate or opinion submitted by it in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect;
- (e) 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;

- (f) (i) Any Indebtedness of the Bank with respect to borrowed money becomes due and repayable prematurely by reason of an Event of Default; (ii) any Indebtedness of the Bank with respect to borrowed money is not paid when due; (iii) any security given by the Bank for any Indebtedness of the Bank for borrowed money becomes enforceable; (iv) default is made by the Bank in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness of the Bank for borrowed money of any other person; or (v) 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;
- (g) 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;
- (h) 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;
- (i) 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;
- (j) 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; or
- (k) Any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to above.

## **12. Effects of Default Events**

### **(a) Declaration of Default**

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default, as defined under the Events of Default in these General Terms and Conditions, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days (at the expense of the Bank), further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

If any one or more of the Events of Default shall have occurred and be continuing after any applicable curing period shall have lapsed, the Trustee, upon the written direction of the Majority Bondholders whose written instruction/consent/letter shall be verified by the Registrar and by written notice to the Bank, may declare the Bank in default in respect of the Bonds held by such Bondholders, stating the Event of Default relied upon, and require the principal amount of the Bonds held by such Bondholders, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such Bondholder or the other holders of the Bonds may be entitled.

(b) Default Interest

In case any amount payable by the Bank under the Bonds, whether for principal, interest, and/or fees due to Trustee or Registrar and Paying Agent or otherwise, is not paid on due date, the Bank shall pay default interest at the rate of twelve percent (12%) per annum thereon, which shall accrue from the date the amounts fall due until the same is fully paid.

(c) Application of Payments

Subject to the Registry and Paying Agency Agreement and the Trust Agreement, any money delivered to the Paying Agent upon the occurrence of an Event of Default under Condition 11 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, the Trustee, 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, or bad faith; *second*, to the payment of all outstanding interest owing to such Bondholder, including any default interest, in the order of maturity of such interest; *third*, to the payment of the whole amount then due and unpaid on the Bonds 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.

**13. Remedies; Waiver; Ability to File Suit; Limitations**

- (a) All remedies conferred by these General Terms and Conditions to the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Bondholders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce such direct rights under these General Terms and Conditions.
- (b) No delay or omission by the Bondholders, 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 General Terms and Conditions to the Bondholders may be exercised from time to time and as often as may be necessary or expedient.
- (c) No Bondholder shall have any right by virtue of or by availing of any provision of the Trust Agreement to institute any suit, action or proceeding for the collection of any sum due from the Bank hereunder on account of principal, interest and other charges, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:
  - (i) such Bondholder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof and the related request for the Trustee to convene a meeting of the Bondholders to take up matters related to their rights and interests under the Bonds;
  - (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name;
  - (iii) the Trustee for 60 days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and
  - (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatsoever, by virtue of or by availing of any provision of the Trust Agreement, to affect, disturb, or prejudice the rights of the holders of any other such Bonds, or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.
- (d) The Majority Bondholders may direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of all Bondholders, waive any past default, except the events of default defined as a payment

default, Insolvency Default, or closure default, and its consequences. In case of any such waiver, the Bank, the Trustee, and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.

- (e) Notwithstanding any other provisions in these General 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).

#### **14. 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 Bondholders of the Registry Confirmation, subject to applicable fees.

#### **15. Change of Trustee by the Bondholders**

- (a) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank, of the required evidence under the provisions of Clause 18 on Evidence Supporting the Action of the Bondholders.
- (b) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee or the trustee to be removed shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Bank; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.

#### **16. Reports of the Bondholders**

- (a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date of the relevant Series or Tranche of Bonds until full payment of the Bonds primarily through electronic mail (unless hand delivery is otherwise chosen by the Bondholder who will then have to bear the printing and delivery costs) a brief report dated as of December 31 of the immediately preceding year with respect to:
  - (i) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
  - (ii) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.
- (b) The Trustee shall submit to the Bondholders primarily through electronic mail (unless hand delivery is otherwise chosen by the Bondholder who will then have to bear the printing and delivery costs) a brief report within ninety (90) days from the making of any advance, the reimbursement of which it claims or may claim as a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10%) of the aggregate outstanding principal amount of the Bonds at such time.
- (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee:
  - (i) Trust Agreement;



- (ii) Issue Management and Placement Agreement;
- (iii) Registry and Paying Agency Agreement;
- (iv) Articles of Incorporation and By-Laws of the Bank, as amended;
- (v) Copies of the Bank's most recent audited financial statements; and
- (vi) A copy of this Offering Circular together with any supplement to this Offering Circular.

## **17. Meetings of the Bondholders**

A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds.

### **(a) Notice of Meetings**

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Bank and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

### **(b) Failure of the Trustee to Call a Meeting**

In case at any time, the Bank, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Bank or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof.

### **(c) Quorum**

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

### **(d) Procedure for Meetings**

- (vii) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Bank or by the Bondholders, in which case the Bank or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.
- (viii) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Rights

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one (1) vote for every Ten Thousand Pesos (₱ 10,000) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

(f) Voting Requirement

Except as provided in Condition 19 (*Amendments*), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Bank as if the votes were unanimous.

(g) Role of the Trustee in Meetings of the Bondholders

Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.

**18. Evidence Supporting the Actions of the Bondholders**

Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.

**19. Amendments**

The Bank and the Trustee may amend these General Terms and Conditions with notice to every Bondholder following the written consent of the Majority Bondholders or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:

- (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver;
- (b) reduce the rate of or extend the time for payment of interest on the Bonds;
- (c) reduce the principal of or extend the Maturity Date;
- (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- (e) reduce the amount payable upon the redemption or repurchase of the Bonds under these General Terms and Conditions or change the time at which the Bonds may be redeemed;
- (f) make the Bonds payable in money other than that stated in the Bonds;
- (g) subordinate the Bonds to any other obligation of the Bank;

- (h) amend or modify the Payment, Taxation, the Events of Default of these General Terms and Conditions or the Waiver of Default by the Bondholders; or
- (i) make any change or waiver of any of the foregoing Condition.

Moreover, the Bank and the Trustee may amend or waive any provisions of the Contracts if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified after such amendment or waiver.

It shall not be necessary for the consent of the Bondholders under this Condition to approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Bank shall send a notice briefly describing such amendment to the Bondholders.

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

## **20. Notices**

All notices, instructions, and requests to the Registrar and Paying Agent or the Trustee or any other person named herein shall be in writing and shall be sent by personal delivery, courier, or registered mail with postage prepaid, confirmed facsimile to the addressees at its address, facsimile number, and secured electronic email address, and for the attention of the specified representative, as set forth below:

- (a) To the Bank and Selling Agent

**RIZAL COMMERCIAL BANKING CORPORATION**

8/F Yuchengco Tower, RCBC Plaza  
6819 Ayala Avenue, Makati City, Makati City

Attention: Francisco G. Singian, Jr.  
First Vice President  
Tel. No.: 8894 9022  
Fax No.: 8845 2766  
E-mail: [fgsingian@rcbc.com](mailto:fgsingian@rcbc.com)

Attention: Robby Carlo J. Gaerlan  
Assistant Vice President  
Tel. No.: 8894 9563  
Fax No.: 8845 2766  
E-mail: [rjgaerlan@rcbc.com](mailto:rjgaerlan@rcbc.com)

- (b) To the Registrar and Paying Agent

**PHILIPPINE DEPOSITORY & TRUST CORP.**

37/F Tower 1, The Enterprise Center  
6766 Ayala Avenue, Makati City

Attention: Josephine "Baby" F. Dela Cruz  
Director  
Tel. No: 8884 5025  
Fax No: 8757 6025  
E-mail: [baby\\_delacruz@pds.com.ph](mailto:baby_delacruz@pds.com.ph)

Attention: Patricia Camille R. Garcia  
Registry Officer  
Tel. No.: 8884 4413  
Email: [peachy.garcia@pds.com.ph](mailto:peachy.garcia@pds.com.ph)

(d) To the Bondholders

All notices to the Bondholders shall be in writing and shall be sent by mail with postage prepaid to the name and last recorded address of the Bondholders as appearing in the 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).

(e) To the Joint Arrangers

**THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED**

6/F HSBC Centre, 3058 Fifth Avenue  
Bonifacio Global City, Taguig City

Attention: Maria Corazon D. Purisima  
Head of Debt Capital Markets  
Tel. No.: 8581 7632  
Email: [corriepurisima@hsbc.com.ph](mailto:corriepurisima@hsbc.com.ph)

**RCBC CAPITAL CORPORATION**

21/F Tower 2  
RCBC Plaza, 6819 Ayala Avenue  
Makati City

Attention: Jose Luis F. Gomez  
President and Chief Executive Officer  
Tel. No.: 8845 3438  
Email: [jlfomez@rcbc.com](mailto:jlfomez@rcbc.com)

(f) To the Trustee

**DEVELOPMENT BANK OF THE PHILIPPINES - TRUST BANKING GROUP**

3/F DBP Building  
Sen Gil J. Puyat Avenue, Makati City

Attention: Ma. Teresa T. Atienza  
Tel. No.: 8818 9511 local 3400  
Email: [mttatenza@dbp.ph](mailto:mttatenza@dbp.ph)

(g) Effect of Notice

All notices, instructions, statements, and requests, where applicable, shall: (i) if delivered personally to the address as provided in this Condition 20(g), 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 20, 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 General 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 20(g).

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.

(h) Recording

For security and quality of service purposes, all telephone and other communications between the parties and the Bondholders may be recorded in any manner, and to the production of such recordings as evidence in any proceedings brought in connection with the Bonds.

(i) Regulatory Notices / Complaint Desk

For any concerns you may contact the Bank at (02) 8877-RCBC (8877-7222) or [customercontact@rcbc.com](mailto:customercontact@rcbc.com). RCBC is a universal bank regulated and supervised by the Bangko Sentral ng Pilipinas with telephone number (02) 8708-7087 and email address [consumeraffairs@bsp.gov.ph](mailto:consumeraffairs@bsp.gov.ph).

**21. Waiver of Preference or Priority**

In the event that a primary obligation for payment shall arise out of the Contracts, such as to constitute any of the Contracts as a contract for the payment of an indebtedness or a loan, then it is understood and expressly agreed by the parties hereto that the obligation created under such Contract/s shall not enjoy any priority, preference or special privileges whatsoever over any indebtedness or obligations of the Bank. Accordingly, whatever priorities or preferences that such Contract/s may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced.

**22. Venue**

In the event of any legal action arising from, or by reason of, the interpretation and enforcement of the provisions of these General 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.

**24. Prescription**

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

**25. Severability**

If any provision hereunder becomes invalid, illegal, or unenforceable under any law, the validity, legality, and enforceability of the remaining provisions of these General 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.

**26. Governing Law**

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

[Nothing follows]

## CAPITALIZATION AND INDEBTEDNESS OF THE BANK

*The following table sets out the audited consolidated capitalization and indebtedness of the Bank as of 31 December 2019. This table should be read in conjunction with the Bank's audited financial statements included elsewhere herein (see "Index to Financial Statements" below).*

<b>(P million)</b>	<b>As of 31 December 2019</b>
	<i>(actual)</i>
<b>Indebtedness</b>	
<b>Short-term liabilities</b>	
Deposit liabilities	435,645
Interbank loans, bills payable and other liabilities	171,955
<b>Total short-term liabilities</b>	<b>607,600</b>
<b>Long-term liabilities</b>	
Deposit liabilities	20,936
Interbank loans, bills payable and other liabilities	26,465
Subordinated notes	-
<b>Total long-term liabilities</b>	<b>47,401</b>
<b>Capital funds</b>	
<b>Issued share capital</b>	8,793
Capital paid in excess of par value	42,568
Retained earnings	
Appropriated	485
Unappropriated	30,143
Other equity adjustments	842
Minority interest	19
<b>Total capital funds</b>	<b>82,850</b>
<b>Total capitalization and indebtedness</b>	<b>737,851</b>

## FORM OF SUPPLEMENT



(A banking corporation organized and existing under Philippine law)

### PRICING SUPPLEMENT DATED [●] OFFER OF UP TO ₱[●] BONDS/COMMERCIAL PAPERS

**under its ₱100,000,000,000 Bond and Commercial Paper Programme  
(subject to a Programme Limit of ₱69,500,000,000)**

consisting of

**[●% p.a.] [Series/Tranche] [●] Bonds/Commercial Papers due [●]**

at an Offer Price of [100%] of Face Value

to be listed and traded through the Philippine Dealing and Exchange Corporation

Sole/Joint Lead Arranger/s and Bookrunner/s

[Logos]

Selling Agents

[Logos]

*This document constitutes the Pricing Supplement relating to [Series/Tranche] [●] [Bonds/Commercial Papers] being offered and described herein (the “Offer”). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the “General Terms and Conditions”) set forth in the Trust Agreement and this Offering Circular dated 17 March 2020 (the “Offering Circular”). This Pricing Supplement contains the final terms of this Offer and the [Series/Tranche] [●] [Bonds/Commercial Papers] and must be read in conjunction with this Offering Circular. Full information on the Bank and the Offer is contained in this Offering Circular and in this Pricing Supplement. All information contained in this Offering Circular are deemed incorporated by reference in this Pricing Supplement.*

<b>Issuer</b>	RIZAL COMMERCIAL BANKING CORPORATION (“RCBC”, “Issuer”, the “Bank”)
<b>Issue</b>	Bonds/Commercial Papers constituting the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank
<b>Specified Currency or Currencies</b>	Philippine Peso
<b>The Offer Size</b>	[₱●]
<b>Manner of Distribution</b>	Public Offer / Private Placement

<b>Issue Price</b>	[At par (or 100% of face value) or At discount]
<b>Form and Denomination of the [Bonds or Commercial Papers]</b>	The [Series/Tranche] [●] [Bonds/Commercial Papers] shall be issued in scripless form in minimum denominations of [₱100,000] each, and in multiples of [₱10,000] thereafter, and traded in denominations of [₱●] in the secondary market
<b>Offer Period</b>	The offer of the [Bonds/Commercial Papers] shall commence at [10:00 am] on [●] and end at [5:00 pm] on [●]
<b>Issue Date</b>	[●]
<b>Interest Rate Structure</b>	[Fixed/ Floating / Zero-Coupon / Discount]
<b>Interest Commencement Date</b>	[●]
<b>Interest Payment Date (s)</b>	{[●],[●],[●] and [●]} of each year, as applicable
<b>[Interest Rate / Yield-to-Maturity]</b>	[●]% [per annum]
<b>Day Count Fraction</b>	[30/360] day count basis
<b>Maturity Date</b>	[●] years from Issue Date or [●]
<b>Issuer Rating</b>	[Baa3 (Moody's)]
<b>Bond Rating</b>	Unrated
<b>Ranking</b>	The [Series/Tranche] [●] Bonds/Commercial Papers constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable according to the Trust Agreement and the General Terms and Conditions, and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves and at least <i>pari passu</i> with all other direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws other than the preference under Article 2244, paragraph 14(a), of the Civil Code of the Philippines.



<b>Payment Account Name</b>	“PDTC as Paying Agent of RCBC FAO [Tranche/Series][●] Bondholders / CP Holders due [●]”
<b>Listing/Enrollment</b>	The Tranche [●] [Bonds/Commercial Papers] are intended to be listed/enrolled at the Philippine Dealing & Exchange Corp., or such other securities exchange licensed as such by the Securities and Exchange Commission
<b>Governing Law</b>	Philippine Law
<b>PARTIES/DISTRIBUTION</b>	
<b>Trustee</b>	DEVELOPMENT BANK OF THE PHILIPPINES – Trust Banking Group
<b>Registrar &amp; Paying Agent</b>	PHILIPPINE DEPOSITORY & TRUST CORP. (“PDTC”)
<b>Sole/Joint Lead Arranger/s and Bookrunner/s</b>	[●]
<b>Selling Agents</b>	RCBC and [●]
<b>[Financial Advisor]</b>	[RCBC CAPITAL CORPORATION]
<b>Market Maker</b>	[●]

**ADDITIONAL INFORMATION**  
**Amendment or Supplement to this Offering Circular**

[Changes or updates to this Offering Circular]

***THE BANK CONFIRMS THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT AND ACCEPTS RESPONSIBILITY THEREFOR.***

**RIZAL COMMERCIAL BANKING CORPORATION**

*Issuer and Selling Agent*

By:

\_\_\_\_\_  
Name:

Position:

## 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 2019, the Bank was the tenth largest private domestic commercial bank in the Philippines in terms of total assets, based on the published statements of financial position. In terms of branches, the Bank ranked 6<sup>th</sup> in the Philippines, with a country-wide total of 507 branches as of 31 December 2019, including 11 extension offices.

As of 31 December 2019, the Bank's consolidated total resources and equity amounted to ₱767,079.00 million and ₱82,850.00 million, respectively. The Bank's consolidated profit before tax and net profit for the year ended 31 December 2019 amounted to ₱6,663.00 million and ₱5,388.00 million, respectively.

As of 13 February 2020, the Bank had a market capitalization on the PSE of ₱40.06 billion. The Bank's consolidated Tier 1 capital adequacy ratio and total capital adequacy ratio were 12.89% and 13.76%, respectively, as of 31 December 2019.

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 year ended 31 December 2019, the Corporate 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.

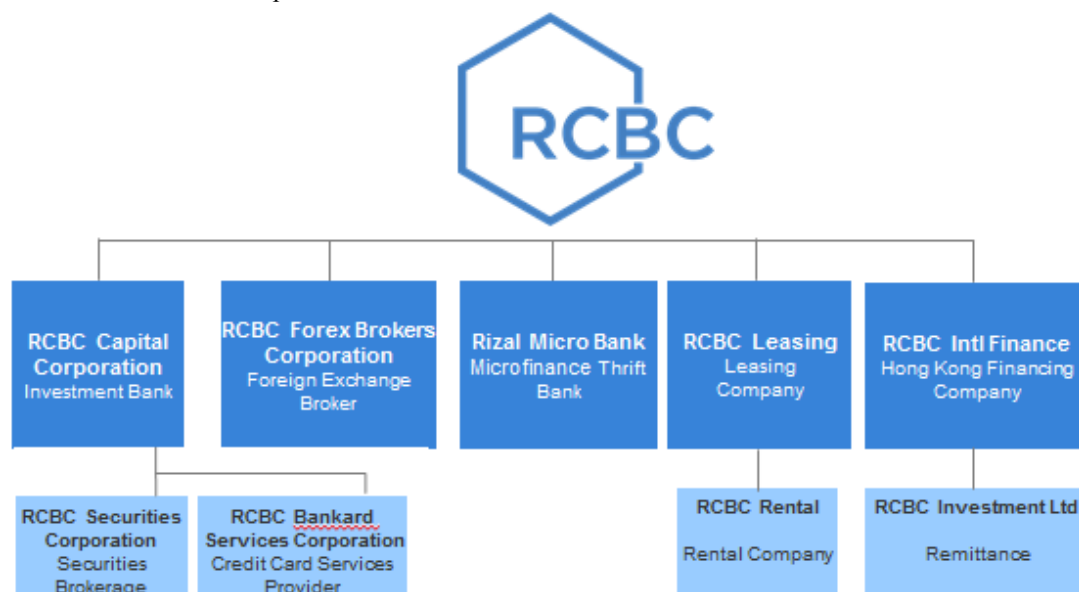
The Bank's RBG provides a range of banking products and services mainly sold through the Bank's branch network. These include deposit products, cash management solutions, investments including trust products, and bancassurance. Aside from managing the Bank's branches, RBG also manages the Bank's nationwide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

The Bank's 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 also provides a full range of consumer banking products and services in the Philippines. On 24 September 2018, the Bank's Board of Directors approved the merger of RSB into RCBC, and the merger became effective on 22 July 2019. The transaction will facilitate a more efficient capital deployment and operational costs, and optimized coordination between branches. 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 3.47% of the remittance business in the Philippines as of 31 December 2019, based on remittance volumes published by the BSP.

RCBC's commitment to service excellence has resulted to numerous awards from regulators, as well as respectable local and international award giving bodies. The Bank has received industry recognition for taking the lead in financing some of the country's major infrastructures from international awards-giving bodies, such as The Asset Triple A and Benchmark Awards, and the Asian Banking and Finance Corporate and Investment Banking Awards, under The Asset's Asia Infrastructure 2019 'Best Deals by Country' category. These include Transport Deal of the Year, Renewable Energy Deal of the Year, and PPP Deal of the Year. The Bank has also received recognition from The Asset Asian Awards as the Best Issuer for Sustainable Finance, and also for the Best Sustainability Bond in the Philippines. In the area of Communications and Branding, RCBC has received several awards, among them are five Quill Awards from the International Association of Business Communicators, two awards from the Bank Marketing Association of the Philippines, Gold Anvil for the brand refresh campaign, and two Silver Anvil for RCBC and RCBC Savings Bank's Merger Communication. Moreover, RCBC Bankard received the Best Card Offering-Philippines recognition during the 5th International Finance Magazine (IFM) Awards and Silver Anvil for the RCBC Bankard Platinum Launch.

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, PMMIC, owned approximately 41.99% 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 December 2019, the Yuchengco family, primarily through PMMIC, owned approximately 41.66% of the Bank's issued and outstanding shares whilst other members of YGC owned or controlled an additional 10.70% 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 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. (“Pan Malayan”) and the Bank to govern their relationship.

As of 31 December 2019, Pan Malayan and Cathay hold 41.66% and 23.35% of shares in the Bank, respectively.

## **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*

The Bank is a market leader in key business segments including investment banking, trusts (where it ranked seventh among private local banks in the Philippines in terms of total trust assets under management as of 31 December 2019, 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. The Bank has implemented a number of initiatives 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. On 1 July 2019, the Bank appointed Mr. Eugene Acevedo as President and Chief Executive Officer.

- *Extensive and strategically located banking infrastructure and network*

The Bank has an extensive and strategically located branch network throughout the Philippines. As of 31 December 2019, the Bank, excluding Government-owned and foreign banks, had the 6<sup>th</sup> largest branch network in the Philippines, with a nationwide network of 507 branches, including 11 extension offices nationwide, supplemented by 1,530 ATMs. In addition, through its Global Filipino Banking/TeleMoney Segment (GFB/TeleMoney), the Bank had an approximate 3.47 per cent market share in OFW remittances as of 31 December 2019. 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 OFWs, both land-based and sea-based, and their beneficiaries in the Philippines. RCBC TeleMoney is made available through the Bank's subsidiary office in Hong Kong and through tie-ups with banks or exchange/money transfer businesses in the United States, Canada, Guam, and countries in the Middle East such as Saudi Arabia, the United Arab Emirates, Kuwait, Bahrain, Qatar, Oman, and Jordan. In addition, the Bank has tie-ups in the Asia Pacific region in countries such as Hong Kong, Japan, Malaysia, Singapore, and Australia, as well as in the European region, specifically in the United Kingdom, Ireland, and Greece. RCBC TeleMoney provides a broad range of value-added services such as RCBC TeleCredit (credit to any Philippine bank account), RCBC TeleRemit (cash pick up from any branch of the Bank, RSB, Rizal Microbank or from other pay-out partners, i.e., pawn shops), RCBC TelePay (bill payment), RCBC TeleDoor2Door (cash delivery to the beneficiaries' doorstep), as well as Food Remittance from Jollibee or Goldilocks.

- *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. RCBC has also developed the following digital channels to increase its exposure to customers and engage in cross-selling opportunities:

- RCBC Online Banking - Retail
- RCBC Online Banking - Corporate
- RCBC ChatBot "AskRC" through Facebook Messenger – first ever banking ChatBot in the Philippines

## **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. The SME market is a focus for the Bank with its attractive margins and potential for cross-sell income such as cash management and transactional fees. For the microfinance market, 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 and campaign support*

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. The Bank is also looking to grow its Mini-POS (MPos) or Cash Express terminals that will enable bank customers to do simple banking transactions at partner merchants. This is beneficial for the Bank's customers who live in far flung areas, giving them more flexibility and accessibility when it comes to managing their finances. All these efforts are further supported by the Bank's rebranding campaign with its key message "We Believe in You". It is a clear message that this is not about the Bank, but what the Bank can do for its customers, it is rooted in a unique insight about what makes strong relationships.

- *Increase cross-selling to existing customers and generate more fee-based income*

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.

The Bank has the following strategies to build its fee-based income for the following products / services:

- Retail Banking: Build a client base including prepaid customers (MyWallet) and increase no. of transactions such as payment (i.e. bills) and purchases.
- ATM: Increase the number of ATMs and mini ATM (MPOS, cash express) for an ATM to branch ratio and generate more ATM fees.
- SME: Developing relationships with SME clients (usually family-owned) to increase cross selling / collateral business (i.e. cash management, consumer loans, insurance, etc.)
- Asset Management/Investment: Grow the Trust / Unit Investment Trust Funds (UITFs) / Wealth Management business

- Investment Banking Fees: Build steady stream of deals in pipeline for Debt & Equity Underwriting and Financial Advisory.
- *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 programs 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 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.

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 2017, 2018, and 2019.



**Year ended 31 December**

<b>(₱ millions, except percentages)</b>	<b>2017</b>		<b>2018</b>		<b>2019</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Retail Banking	6,831	132.62%	7,506	144.54%	9,353	140.37%
Corporate Banking	7,649	148.50%	7,426	143.00%	6,069	91.09%
SME	874	16.97%	1,061	20.43%	1,935	29.04%
Treasury Group	2,411	46.81%	2,122	40.86%	7,898	118.54%
Others	(12,614)	-244.88%	(12,922)	-248.83%	(18,592)	-279.03%
 Total profit before tax and non-controlling interest	 5,151	 100.00%	 5,193	 100.00%	 6,663	 100.00%
Tax Expense (Income)	(841)	-16.33%	(872)	-16.79%	(1,275)	-19.14%
Non-controlling interest in net profit	(2)	-0.04%	(1)	-0.02%	(1)	-0.02%
<b>Net Profit</b>	<b>4,308</b>	<b>83.63%</b>	<b>4,320</b>	<b>83.19%</b>	<b>5,387</b>	<b>80.85%</b>

### **Retail Banking**

The RBG consists of branches offering a wide range of products and services to the Bank's various customers. As of 31 December 2019, the RBG operated through 496 branches and 11 extension offices (including RMB branches).

The Bank continued to broaden its reach in the retail, SME, and corporate markets in 2018 and 2019, as it capitalized on its strategically located business centers, 1,530 ATMs nationwide, and efficient electronic channels as of 31 December 2019.

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 following digital channels:

- RCBC Online Banking - Retail
- RCBC Online Banking - Corporate
- RCBC ChatBot "AskRC" through Facebook Messenger

The Bank also continues to grow its Mini-POS (MPos) or Cash Express terminals to enable bank customers to do simple banking transactions at partner merchants.

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 (CBG) 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 six customer segments: (i) conglomerates (ii) large corporations (iii) emerging corporates, which focus on large middle accounts often referred to as the “Next 500 Corporations” (iv) Japanese multinationals with a strong presence in the country, (v) Filipino-Chinese businesses and (vi) Korean businesses. 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. The Philippine Economic Zone Authority disclosed that there were 74 active operating manufacturing ecozones in the Philippines as of 30 November 2017. 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.

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.

### **Small Medium Enterprise Banking**

The Small Medium Enterprise Banking Group (“SMEBG”) was created last June 2019 in line with RCBC’s vision to create a stronger SME Banking. SMEBG provides financial needs, digital and non-digital solutions to Commercial SMEs and Small Enterprises.

The SMEBG is composed of lending centers and satellite offices in Metro Manila, provincial Luzon, Visayas, and Mindanao and efforts are ongoing to strengthen the service capabilities of these centers.

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](http://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" program. 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 program 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](http://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 program and Philippine Domestic SME Bank of the Year for 2012.

The Bank continues to expand its reach in the SME market. As of 31 December 2019, the Bank's SME market loan portfolio amounted to ₱74 billion or 17% of the Bank's consolidated total loan portfolio compared to ₱57.9 billion or 16% as of 31 December 2018.

## **Treasury Group**

The Treasury Group is composed of the following:

- Asset & Liability Management Group;
- Trading Division;
- Treasury Sales & Digital Service Delivery Segment;
- Financial Derivatives Solutions Division;
- Financial Institutions & Support Segment; and
- Subsidiaries Treasury Risk Positions Segment.

The following describes the key functions of the group/segment/division:

- The Asset & Liability Management Group is comprised of the Asset Portfolio Management Segment (APMS) and the Reserves & Liquidity Management Segment (RLMS). The APMS responsible for investment activities and operations geared towards achieving investment revenue targets related to various Treasury instruments while the RLMS responsible for ensuring that the Bank has adequate liquidity at all times and provide active support to the Bank's core business strategies in the areas of lending, investments and deposits in order to maximize the Bank's NII.
- The Trading Division is tasked to generate trading income in the fixed income, foreign exchange and derivatives space
- The Treasury Sales & Digital Service Delivery Segment is the Treasury Group's marketing arm and works closely with the other divisions as well as the Bank's business managers to market treasury products and services to clients.
- Financial Derivatives Solutions Division is responsible for derivative product development and support to the group through derivative solutions.
- The Financial Institutions & Support Segment is responsible for the correspondent banking business, including expanding liability sources and exploring new trade product structures from its relationships with other financial institutions. It also is responsible for providing non-sales support for the Treasury group in the areas of regulatory compliance, information systems, records management, business continuity planning, and budgeting.

- Subsidiaries Treasury Risk Positions Segment is responsible for giving advisory service to different RCBC subsidiaries, particularly on improving its liquidity position and addressing funding gap issues. It is also responsible for product development that will best suit the subsidiaries' needs

### ***Total Investment Portfolio***

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

(P millions)	Year ended 31 December											
	2017				2018				2019			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
Government securities	43,430	41,602	-	-	84,733	81,760	150	-	138,930	139,304	45	-
Other debt securities	21,396	19,642	-	-	24,856	25,813	1	-	16,472	15,959	-	-
<b>Total debt securities</b>	<b>64,826</b>	<b>61,244</b>	<b>-</b>	<b>-</b>	<b>109,589</b>	<b>107,573</b>	<b>151</b>	<b>-</b>	<b>155,402</b>	<b>155,263</b>	<b>45</b>	<b>-</b>
Non-debt securities	8,106	8,106	1,872	-	8,860	8,860	1,700	-	5,456	5,456	809	-
<b>Total</b>	<b>72,932</b>	<b>69,350</b>	<b>1,872</b>	<b>-</b>	<b>118,449</b>	<b>116,433</b>	<b>1,851</b>	<b>-</b>	<b>160,858</b>	<b>160,719</b>	<b>854</b>	<b>-</b>

### ***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.

(P millions)	Year ended 31 December											
	2017				2018				2019			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
Government securities	-	-	-	-	15,138	15,138	150	-	43,281	43,281	45	-
Other debt securities	-	-	-	-	388	388	1	-	7,331	7,331	-	-
<b>Total debt securities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,526</b>	<b>15,526</b>	<b>151</b>	<b>-</b>	<b>50,612</b>	<b>50,612</b>	<b>45</b>	<b>-</b>
Non-debt securities	5,363	5,363	1,872	-	6,461	6,461	1,700	-	3,633	3,633	809	-
<b>Total</b>	<b>5,363</b>	<b>5,363</b>	<b>1,872</b>	<b>-</b>	<b>21,987</b>	<b>21,987</b>	<b>1,851</b>	<b>-</b>	<b>54,245</b>	<b>54,245</b>	<b>854</b>	<b>-</b>

### ***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.

(P millions)	Year ended 31 December											
	2017				2018				2019			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
Government securities	4,386	4,386	-	-	3,511	3,511	-	-	3,438	3,438	-	-
Other debt securities	462	462	-	-	1,657	1,657	-	-	287	287	-	-
<b>Total debt securities</b>	<b>4,848</b>	<b>4,848</b>	<b>-</b>	<b>-</b>	<b>5,168</b>	<b>5,168</b>	<b>-</b>	<b>-</b>	<b>3,725</b>	<b>3,725</b>	<b>-</b>	<b>-</b>
Non-debt securities	2,743	2,743	-	-	2,402	2,402	-	-	1,823	1,823	-	-
<b>Total</b>	<b>7,591</b>	<b>7,591</b>	<b>-</b>	<b>-</b>	<b>7,570</b>	<b>7,570</b>	<b>-</b>	<b>-</b>	<b>5,548</b>	<b>5,548</b>	<b>-</b>	<b>-</b>

## 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.

(P millions)	Year ended 31 December											
	2017				2018				2019			
	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss	Book Value	Market Value	Unrealized Gain	Unrealized Loss
Government securities	39,044	37,216	-	-	66,084	63,111	-	-	92,211	92,585	-	-
Other debt securities	20,934	19,180	-	-	22,808	23,765	-	-	8,715	8,870	-	-
<b>Total debt securities</b>	<b>59,978</b>	<b>56,396</b>	<b>-</b>	<b>-</b>	<b>88,892</b>	<b>86,876</b>	<b>-</b>	<b>-</b>	<b>100,926</b>	<b>101,455</b>	<b>-</b>	<b>-</b>
Non-debt securities	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>59,978</b>	<b>56,396</b>	<b>-</b>	<b>-</b>	<b>88,892</b>	<b>86,876</b>	<b>-</b>	<b>-</b>	<b>100,926</b>	<b>101,455</b>	<b>-</b>	<b>-</b>

## Trust and Investments

The Trust and Investments Group has an established track record in trust and asset management. Trust assets of ₱94.432 billion as of 31 December 2019, ranked eighth 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 81% of total trust assets as of 31 December 2019. 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 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 ten UITFs, five of which were launched in 2005, one in 2009 and two in 2014, and two new Equity Funds were launched in the latter part of 2019. These products include Peso and U.S. dollar denominated money market and fixed income funds, a local balanced fund and local equity funds.

The two UITFs launched in 2019 were the R25 Blue-Chip Equity Fund (RBEF) and the R25 Dividend Equity Fund (RDEF). The R25 Equity Funds use pre-determined formulas or algorithm in the selection of the companies listed in the Philippine Stock Exchange (PSE) and in the computation of weights per company selected. RBEF invests in the 25 largest and most liquid companies listed in the Philippine Stock Exchange or PSE, while the RDEF invests in high-dividend paying stocks.

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 home-grown 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 Lending

The Bank's Consumer Lending primarily provides mortgage loans, auto loans, personal and salary loans through Consumer Lending Group which was the business of RSB before it was merged with the Parent Bank.

On 24 September 2018, the Bank's Board of Directors approved the merger of RSB (a wholly-owned subsidiary) into RCBC. The proposed transaction will facilitate for the RCBC Group the following objectives: (1) more efficient capital deployment, (2) more efficient compliance with the Basel 3 liquidity ratios, (3) optimal coordination between the branch banking networks of RCBC and RCBC Savings, (4) medium-term improvement in the funding economics, and (5) operational cost efficiencies. The merger between the Bank and RSB (with the Bank as the surviving entity) became effective on 22 July 2019 following receipt of stockholders' and regulatory approvals.

### Consumer Lending Group

In 1996, 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. On July 22, 2019, the merger between the Bank and RSB became effective. RSB's consumer lending business became the Consumer Lending Group.

Consumer Lending Group offers its customers a wide variety of consumer loan products such as home mortgage loans, auto loans and personal/salary-deducted loans, which made up approximately 52% (₱50 billion), 45% (₱44 billion) and 1% (₱956 million) of its total loan portfolio as of 31 December 2019.

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

(₱ millions)	Year ended 31 December		
	2017	2018	2019
Home mortgage loans	41,668	47,965	53,417
Automobile loans	36,380	40,683	46,592
Salary / Personal loans	448	698	1,158
Others	3,332	3,409	276
<b>Total</b>	<b>81,828</b>	<b>92,755</b>	<b>97,749</b>

### ***Residential Mortgage Loans (under Consumer Lending Group)***

The residential mortgage loans have a term of one to 20 years with loan amounts starting from ₱300,000 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. As of 31 December 2019, the Bank had ₱53.42 billion in residential mortgage loans.

### ***Auto Loans (under Consumer Lending Group)***

RSB also provides auto financing to individuals, mainly for the acquisition of new vehicles, although RSB also finances the acquisition of second-hand vehicles and provides general purpose loans secured by customer's vehicles. As of 31 December 2019, the Bank had ₱46.59 billion in auto loans. RSB's auto loans are typically ₱900 million 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 (under Consumer Lending Group)***

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 December 2019, the Bank had ₱1 billion in personal and salary loan portfolio.

The Bank offers unsecured personal loans in amounts from ₱50,000 to ₱1.0 million, although the current average is at ₱200,000. 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 to ₱500,000 with a current average of ₱90,000.

### ***Micro Finance***

Rizal Microbank (RMB) is the thrift banking arm of RCBC that is focused on providing financial products and services to the "bottom of the pyramid", specifically the highly entrepreneurial segment of the microenterprise sector. Over 90% of households still remain unbanked and underserved, thus, providing Rizal MicroBank with a huge potential market for its microfinance services. In addition to its focus on the microenterprise segment, Rizal Microbank has been providing since 2013 business loan products intended for the sub-small enterprise segment or the so-called "missing middle"—comprising of small entrepreneurs whose loan requirements put them above microfinance and yet whose financing requirements are still below the lending floor of small & medium enterprise loans. In 2015, Rizal Microbank introduced an agricultural loan using the value chain finance framework/approach. The agricultural loan



product seeks to provide financing to agricultural value chain players such as traders, consolidators, aggregators, and processors who are responsible in making something out of the produce of farmers and bringing them into their final market here in the Philippines and abroad. In addition, the foray into agricultural lending through the value chain framework/approach aims to provide the bank deeper insights into the agriculture sector and allow it to design and offer financial products and services specifically tailored fit to farmers engaged in production. The last initiative is something that RCBC and Rizal Microbank are seriously pursuing since most of those unbanked and underserved are found in the rural and farming areas of the country.

As of December 2019, outstanding portfolio of the subsidiary is at ₱1.25 billion pesos with microfinance loans 10% share, small business loans at 43% and agricultural loans at 47%. In terms of active borrowers, microfinance borrowers account for 55%, small business loans borrowers at 22% and agricultural loan borrowers at 23%. In terms of outstanding deposit, the subsidiary ended 2019 with ₱1.09 billion, with total number of accounts at 18,185.

RMB's profitability was also maintained in 2019. The subsidiary registered a net income of ₱7.2 million, after adjustment was made to account for additional provisioning for its Laurel Branch loan portfolio which was affected by the Taal volcano eruption in January 2020. The additional provision which is ₱6.0 million had to be made under the PFRS 9 regime which mandates a more conservative stance in booking loan loss provision due to its forward looking approach.

For 2020, the subsidiary which has 18 branches and 5 branch lite-units has lined up several initiatives to further improve its outreach and performance. Foremost among the initiatives is the launch of its agency banking program following the successful migration in October 2019 to a new core banking system that is cloud-based and software as a service model. RMB's agency banking will harness existing partnerships with barangay-based merchants who will be tapped to facilitate on-boarding of unbanked and underserved population via the bank's basic deposit account (BDA) product. In addition, the merchant-partners will also facilitate the conduct of financial services such as deposits and withdrawals to the bank's BDA account holders, bills payment, and referral for loans and micro-insurance. The initiative is being pursued to improve the distribution network of the subsidiary without incurring huge capital and operating expenditures while at the same time, contributing to the attainment of the government's objectives under the national strategy for financial inclusion.

### ***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 ₱400 to ₱600 per month. Annual cardholder fees range from ₱600.00 to ₱5,000.00. The interest rates on deferred and instalment payments range from 5.76% to 27.00% 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 1.32% to 1.38%. 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 December 2019, RCBC Bankard was the fifth largest credit card brand in the Philippines in terms of issuing billings and ranked sixth in terms of active card base.

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. The Bank has also started working on voice biometrics to enhance security of live calls while reducing the average handle times. Once completely launched, faster authentication can reduce contact centre costs and help provide overall improved customer experience.

As of 31 December 2019, total outstanding credit balances amounted to ₱31.0 billion. The delinquency rate on balances overdue for more than 30 days was 4.47% as of 31 December 2019. 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:

(₱ millions)	Year ended 31 December		
	2017	2018	2019
Cardholder fees and commission income	1,177	1,285	1,632
Merchant acquirer commissions	68	71	71
Net interest income (loss) <sup>1</sup>	2,940	3,492	4,218
Operating income	2,049	2,582	3,175
Provisions for loan losses	740	1,212	1,824
Credit card balances <sup>2</sup>	16,011	21,097	30,486
Credit card charge volume <sup>3</sup>	39,132	49,082	63,557
Credit cards outstanding (thousands)	579	695	877
Delinquency rate <sup>4</sup>	4.1	3.9	4.5

*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 179 days. 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 December 2019, the Bank had relationships with approximately 4,908 head office merchants and 9,489 merchant outlets. During this same period, the Bank’s top 200 merchant relationships (i.e. POS swiped transactions) accounted for more than 81% of the Bank’s total credit card billings. As of 31 December 2019, the Bank’s acquiring volume and gross merchant discount amounted to ₱26.6 billion and ₱279.4 million, respectively.

## Branch Banking

As of 31 December 2019, the Bank had a total of 507 branches including 11 extension offices, of which 486 branches belonged to the Bank, and 21 to Rizal Microbank. As of the same date, the Bank had a total of 1,530 ATMs. Each of the Bank'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, ATMs, and extension offices in operation as of the specified dates:

	Year ended 31 December		
	2017	2018	2019
Branches			
Metro Manila (incl. Cainta and Taytay)	150	153	218
Luzon	75	84	148
Visayas	42	44	63
Mindanao	39	49	67
<b>Total</b>	<b>306</b>	<b>330</b>	<b>496</b>
ATMs	1,103	1,136	1,530
Extension offices	25	2	11

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 362,786 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 and GCash, using a RCBC account.

ROR is also available on mobile devices, allowing the Bank's customers to access their accounts using their iOS 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. The Bank's Digital Banking Group ("DBG"), now under Global Transaction Banking Group ("GTB"), has successfully launched the MyDebit Card powered by MasterCard, which allows clients to access 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 under the RCBC MyWallet Visa brand, which does not require any minimum balance. The RCBC MyWallet Card can be "loaded" with cash through the Bank branches, LBC outlets or via a funds transfer from a Bank deposit account. As of 31 December 2019, the Bank had outstanding a total of 839,720 pre-paid cards and 1,047,476 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 four main businesses under its responsibility: Corporate Cash Management ("CCM"), Global Filipino Banking ("GFB"), Trade Product Management ("TPM"), and Retail Cash Management ("RCM"). 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 a broad range of customers from SMEs to large conglomerates. CCM's services can be broadly classified under two main types: collections and disbursements. Collection services allow SMEs and corporate clients to efficiently collect payments, sales and other amounts due to them using the Bank's different collection facilities and channels. Collection services include the following facilities: bill collection, automatic debit arrangement, PDC warehousing and deposit pick-up. Our disbursement services allow our clients to conveniently and efficiently process their payables, as we offer automated processing and reconciliation of a client's various payment transactions. Disbursement services include outsourced corporate check and manager's check printing, payroll services, fund transfers, and government payments. The main channel of delivery and information of its services is the Bank's corporate internet banking system.

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 December 2019, ITSSG had 241 employees.

The core objective of the Bank’s IT program 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 handling 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 Wealth Briefing Asia 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.

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

On various dates, the Bank extended dollar loans to HHIC-Phil Inc. (“HHIC-Phil”) in the form of an Export Advance Loan facility to finance 80% of the construction cost of specific shipbuilding contracts, net of any advance payments/installment payments by ship-owners. The facility is secured by a Deed of Assignment of the receivables at 80% loan value and the Comprehensive Surety Agreement executed by Hanjin Heavy Industries & Construction Co., Ltd. (“HHIC-Korea”), a corporation incorporated in the Republic of Korea and parent company of HHIC-Phil. Loan repayments are matched against the milestone installment payments of ship-owner.

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

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

necessary to maintain or operate the transferred assets, including employee costs.

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

However, on June 14, 2019, the Rehabilitation Receiver filed a Motion dated June 13, 2019 (a) seeking further supporting details on certain items in the MRP with Clarifications from the Bank/co-creditor banks; and (b) praying that (i) all HHIC-Phil creditors agree to a uniform debt reduction/waiver of interest and penalties, (ii) the Bank/co-creditor banks be made to infuse working capital funds to HHIC-Phil in the meantime, and collectively limit their claim to US\$350 should HHIC-Phil's assets be instead sold to a white knight, and (iii) the excess of such payment be used to paying all other creditors in proportion to their remaining exposures. The Bank/co-creditor banks opposed the Rehabilitation Receiver's Motion (a) given their assumption of the cost of maintaining the shipyard; (b) requiring the infusion of additional working capital to HHIC-Phil when its account is past due may result in stiff penalties from its various financial regulators; and (c) the viability of the MRP with Clarifications arising from the waiver of the US\$1,041 claims of the HHIC-Korea affiliates and HHIC-Phil's adoption of a new payment scheme, lessening its reliance on loans to finance its projects.

In the Order dated August 8, 2019, the Rehabilitation Court found the MRP with Clarifications to be still deficient and remanded the same for revision, and ordered the Bank/co-creditor banks make a complete and full disclosure of all transactions/submit all contract, agreements, waivers and other pertinent documents entered with foreign banks and other parties to the proceedings. On September 2, 2019, the Bank filed its Manifestation with Motion for Additional Time to Comply, disclosing the existence of a non-binding offer from a potential white knight, and praying that the Rehabilitation Receiver be given time to submit a further revised Rehabilitation Plan. On the other hand, two of the co-creditor banks filed an Omnibus Motion arguing that the MRP with Clarifications would (a) relieve HHIC-Phil of its US\$7.2 million a year bill for shipyard maintenance cost, (b) condone a huge portion of HHIC-Phil's debt, and (c) leave HHIC-Phil with more than sufficient operational funds during the remaining rehabilitation period, and that the FRIA does not prohibit a change in HHIC-Phil's line of business.

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

On 5 November 2019, the Rehabilitation Court issued an Order reconsidering the Order dated 8 August 2019/confirming the MRP with Clarifications. Not long after, a number of creditors (principally ship-owners with warranty claims/manufacturers of ship parts/engines) filed various motions for admission/clarification/correction of amount/reclassification of claims, as found in the Final Registry of Claims, praying that the Rehabilitation Court recall/vacate the Order confirming the MRP with Clarifications. The Bank/co-creditor banks filed their oppositions thereto pointing out that (a) these claims were already considered in the Rehabilitation Receiver's Submission (On Disputed and Challenged Claims and Those with Pending Motions for Correction/Rectification) (the "Submission") filed on September 16, 2019; (b) the movants failed to appeal within the five (5) day-period from notice of such Submission; (c) the same has been approved via the Order dated November 11, 2019; and (d) under no circumstances can the ship-owners Omnibus Motion filed in November 2019, be considered as the appeal mentioned in Section 26, Rule 2 of the FRIA. As for the ship engines/parts supplier, respectively, the Bank/co-creditor banks posited that (a) the ship engines supplier did not classify its claim as an administrative expense when it filed the same on January 18, 2020, and neither did it comment on the MRP/MRP with Clarifications/co-creditor bank's Motion for Reconsideration



on the Order dated August 8, 2019 despite several opportunities to do so; and (b) the period to question the Rehabilitation Receiver's decision on the disputed claims, or appeal the same, have lapsed.

The Korean Development Bank ("KDB") likewise filed a Motion to enforce its lien on the HHIC-Phil account in its possession, which was opposed by the Rehabilitation Receiver/a co-creditor bank given that KDB's claim is fully secured by the real properties of HHIC-Korea.

As of December 31, 2019, the outstanding loan obligation of HHIC-Phil to the Bank remains at US\$149,441,585.67, inclusive of accrued and compounded interest as well as penalty on interest and principal.

### **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 ("NSC Plant Assets") of the National Steel Corporation ("NSC") from the Liquidator (as defined in the Asset Purchase Agreement ("APA") dated September 1, 2004) in 2004, initiated arbitration proceedings with the Singapore International Arbitration Center ("SIAC") seeking damages on account of the failure of the Liquidator and the Secured Creditors (as also defined in the APA), including the Bank and RCBC Capital, to deliver the NSC Plant Assets free and clear from liens and encumbrance, purportedly depriving Global Steel of the opportunity to use the NSC Plant Assets to secure additional loans to fund the operations of the NSC Steel Mill Plant and upgrade the same.

On May 9, 2012, the SIAC Arbitral Tribunal rendered a partial award in favor of Global Steel in the amounts of (a) US\$80 million, as and by way of lost opportunity to make profits and (b) ₱1,403 million, representing the value of the undelivered billet shop land measuring 3.41 hectares. On appeal, and on July 31, 2014, the Singapore High Court set aside the partial award. On March 31, 2015, the Singapore Court of Appeals rendered a decision which affirmed the earlier decision of the Singapore High Court but held that the Liquidator and Secured Creditors are still required to deliver to Global Steel clean title to the NSC Plant Assets.

The Bank's total exposure in connection with the obligation to transfer clean title to the NSC Plant Assets to Global Steel is approximately ₱217 million in terms of estimated property taxes and transfer costs due on the NSC Plant Assets, as a result of the Philippine Supreme Court's affirmation of the ruling that all pre-closing taxes on the NSC Plant Assets are deemed paid. On the other hand, the Bank has a receivable from Global Steel in the amount of P485.5. The Bank has fully provisioned the receivable, which is classified in the books of the Bank as Unquoted Debt Securities Classified as Loans ("UDSCL") with zero net book value. The Bank's exposure, however, may be varied depending on whether the Iligan City's assessment of the post-closing taxes will be sustained as valid (including those imposed on non-operational machineries).

Notwithstanding the finality of the Philippine Supreme Court's ruling on the pre-closing taxes, on October 19, 2016, the City of Iligan foreclosed on NSC's properties after issuing a Notice of Delinquency against the NSC, seeking to collect the taxes covering the period 1999 to 2016. In an Order dated April 4, 2017, the Makati City Regional Trial Court ("Makati Trial Court") (a) nullified the public auction of the NSC Plant Assets, among others, (b) enjoined any and all real property tax collection actions against the NSC until the decision dated October 7, 2011, which held that the NSC pre-closing taxes have been paid, is fully executed and NSC's remaining tax liabilities are correctly computed. Likewise, in an Omnibus Order dated May 21, 2018, the Makati Trial Court denied the Motion for Reconsideration and the Urgent Motion to recall the Orders dated October 18, 2016 and April 4, 2017 filed by the Iligan City LGU and Iligan City Treasurer, among others.

The City of Iligan, represented by its purported Acting City Mayor Jemar L. Vera Cruz, filed with the Court of Appeals a Petition for Certiorari dated July 6, 2018, essentially (a) asserting the said LGU's right to sell at public auction the NSC Plant and other assets due to non-payment both pre-closing and post-closing taxes; and (b) praying that the writ of execution issued by the Makati Trial Court be declared null and void, especially due to the non-payment of docket fees and non-deposit of the contested tax amount of ₱4,610 million. In a Resolution dated December 18, 2018, the Court of Appeals dismissed the Petition filed by the City of Iligan on account of the LGU's failure to submit the documents/pleadings identified in an earlier Resolution dated July 31, 2018. The Court of Appeals likewise denied the City of Iligan's Motion for Reconsideration in its Resolution dated June 20, 2019, prompting the LGU to file a Petition for Review with the Supreme Court on September 6, 2019. In a Resolution dated October 16, 2019, the Supreme Court *motu proprio* granted the City of Iligan's Petition, and ordered the remand of the case to the Court of Appeals for the determination of the propriety of consolidating the same with CA-G.R. SP No. 1249852, or for resolution of the merits of the case.

## **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, Inc. ("Bankard") Grupo Mercarse Corp., CNP. Worldwide, Inc. and several individuals before the Los Angeles Superior Court for various causes of action including fraud, breach of contract and accounting, claiming that VII and its alleged parent company, VMS, failed to receive the total amount of US\$1.5 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 July 11, 2016. On October 2, 2017, the Bank/Bankard filed their Revised Opening Brief on their appeal of the verdict with the California Court of Appeals. On March 28, 2018, the Bank/Bankard was advised of the filing of VMS's Combined Respondents' Brief and Cross-Appellants' Opening Brief. On August 14, 2018, the Bank/Bankard filed their combined Reply and Cross-Respondent's Brief. In accordance with prior stipulations, VMS timely filed its Final Reply Brief dated October 31, 2018.

In a letter dated May 30, 2019, VMS requested the California Court of Appeals to take cognizance of the ruling in *Mazik vs. Geico General Insurance Company*, claiming that it is relevant in resolving its punitive damages appeal. In a letter dated June 3, 2019, the Bank/ Bankard objected to the letter filed by VMS as it violates Rule 8.254 of the California Rules of Court, which prohibits the inclusion of "argument or other discussion of authority" and description of issued raised by a party in its brief. The parties are still awaiting the advice of the California Court of Appeals on the schedule date of the oral arguments.

## **RCBC Securities**

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

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

In a Complaint dated December 30, 2013, Cognatio Holdings, Inc. ("Cognatio") complained against RSEC, its former Vice President for Operations/Chief Finance Officer, its former Compliance Officer and Valbuena with the Enforcement and Investor Protection Department of the Securities and Exchange Commission ("EIPD-SEC"). In an Order dated April 3, 2019, the SEC-EIPD (a) ruled that RSEC violated the Securities Regulations Code, imposing thereon a monetary fine of P5, and (b) directed its submission of amended internal control procedures to (i) strengthen its Chinese Wall Policy, and (ii) validate transactions executed by its salesmen. On April 25, 2019, RSEC manifested that notwithstanding its disagreement with such factual findings, it will comply with the latter's directives. RSEC likewise proposed to immediately pay a reduced amount in full and complete settlement of the monetary fine. In an Order dated July 16, 2019, the SEC-EIPD accepted RSEC's settlement offer of ₱2.5 million, sans any finding of fault or guilt on the latter's part. Further, on August 5, 2019, RSEC submitted its Board-approved Amended Internal Protocols to the Markets and Securities and Regulation Department, in compliance with the directive of the SEC-EIPD.

In September 2014, Carlos S. Palanca IV ("Palanca") and Cognatio filed a complaint against RSEC with the CMIC, even as Cognatio's foregoing complaint was still pending with the EIPD-SEC. In its decision letter dated December 4, 2014, the CMIC dismissed Palanca/Cognatio's complaint on the ground of prescription and *res judicata*. However, this was reversed by the SEC en banc on appeal. Aggrieved, RSEC elevated the matter to the Court of Appeals, which held that Palanca/Cognatio committed willful and deliberate forum shopping. In a Resolution dated September 5, 2018, the Court of Appeals denied Palanca/Cognatio's Motion for Reconsideration, which prompted their filing of a

Petition for Review dated October 8, 2018 with the Supreme Court. On February 11, 2019, RSEC filed its Comment to the Petition for Review, and Palanca/Cognatio responded by filing, on March 25, 2019, a Motion for Leave to file Reply and their attached Reply. The case remains pending to date.

On February 22, 2013, Stephen Y. Ku ("Ku") filed a complaint against RSEC with the Regional Trial Court of Makati, Branch 149 (the "Makati Trial Court"), essentially praying for the return of his shares of stock and cash payments approximately valued at ₱103 million, which he claims to have turned over to Valbuena. On May 20, 2013, RSEC sought the dismissal of the complaint citing non-payment of the correct filing fees and failure to state a case of action. After the Makati Trial Court denied the same, RSEC elevated the matter to the Court of Appeals, which sustained RSEC's position and ordered the dismissal of the complaint in its Decision dated October 9, 2014. However, acting on Ku's Petition for Review, the Supreme Court – in its Decision dated October 17, 2018 - reversed the Court of Appeals and held that Ku's immediate payment of the deficiency docket fees shows that he did not intentionally attempt to evade the payment of the correct filing fees, so as to merit the dismissal of his complaint. In a Resolution dated January 23, 2019, the Philippine Supreme Court denied RSEC's Motion for Reconsideration, and ordered the Makati Trial Court to proceed with the hearing of the case until its termination.

The proceedings before the Makati Trial Court were suspended to give way to mediation on July 16, 2019. After the filing of the Pre-Trial Briefs on August 13-14, 2019, the parties underwent Judicial Dispute Resolution, which was terminated on October 29, 2019 after settlement failed. In an Order dated November 12, 2019, the Makati Trial Court Branch to where the case was re-raffled, set the same for pre-trial conference on December 13, 2019, and directed the filing of the Judicial Affidavit of the parties' respective witnesses. On the aforesaid date, Ku and his counsel failed to appear/submit the required Judicial Affidavits of his witnesses, resulting in the resetting of the pre-trial conference to January 15, 2020. The Makati Trial Court issued a warning to Ku that it will dismiss the case should he and his counsel fail to appear during the said hearing date.

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

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

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

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

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

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

In response/compliance with the Resolution dated March 27, 2019, the Bank and BAP member banks pointed out that (a) the Makati Trial Court case was proper since the issue relates to the exercise of quasi-legislative power; (b) Regional Trial Courts have original jurisdiction over Declaratory Relief actions arising from the issuance of invalid Revenue Regulations; (c) the Bank and BAP-member banks have not breached RR 4-2011; and (d) the Makati Trial Court correctly held that RR 4-2011 is invalid (i) for mandating banks and other financial institutions to adopt a different method of accounting from the other classes of taxpayers, in denigration of the equal protection clause of the 1987 Philippine Constitution, and (ii) unlawfully amending the NIRC or Tax Code, and depriving the Bank and BAP-member banks their substantive rights to fully deduct legitimate business expenses from their gross income. The case remains pending before the Supreme Court.

### **Capital Expenditure**

The Bank's planned capital expenditures in 2020 are ₱2.50 billion, primarily aimed at upgrading and expanding the Bank's existing technology, software and hardware.

The Bank's capital expenditures for the years ended 2017, 2018, and 2019 were ₱1.83 billion, ₱1.39 billion, and ₱1.56 billion, respectively. The Bank's primary capital expenditures during 2017, 2018, and 2019 were mainly invested in computer equipment and software.

### **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 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 years 2017 and 2018, RCBC Capital and its subsidiaries' net income were ₱547.60 million and ₱109.68 million, respectively. For the year ended 31 December 2019, RCBC Capital and its subsidiaries' net income amounted to ₱279.84 million.

#### ***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 years 2017 and 2018, RCBC Securities' net income was ₱20.0 million and ₱5.88 million, respectively. For the year ended 31 December 2019 RCBC Securities net loss amounted to ₱5.79 million.

#### ***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 year ended 31 December 2019 RBSC's net income amounted to ₱41.49 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 2017 and 2018, RCBC Forex's net income was P4.33 million and ₱14.10 million, respectively. For the year ended 31 December 2019, RCBC Forex's net income was P15.74 million.

#### ***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 year 2017, RCBC IFL's net loss was ₱8.94 million. For the year ended 31 December 2019, RCBC IFL's net income amounted to ₱2.30 million. 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. As of 31 December 2019, Rizal Microbank had 21 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 year 2017, RCBC RMB's net loss was ₱19.16 million. For the year ended 31 December 2018, Rizal Microbank had a net income of ₱24.21 million, and for the year ended 31 December 2019, Rizal Microbank had a net income of ₱13.27 million

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

RCBC JPL Holding Company, Inc., a 99.41% 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 2017 and 2018, RCBC-JPL's net income was ₱0.1 million and ₱1.2 million, respectively. For the year ended 31 December 2019, JPL's net income was ₱1.91 million.

#### ***Niyog Property Holdings, Inc. (NPHI)***

NPHI, a wholly owned subsidiary of the Bank (100% owned by the 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 2017 and 2018, RCBC NPHI's net income was ₱140.00 million and ₱33.92 million, respectively. For the year ended 31 December 2019, NPHI's net income was ₱51.38 million.

***RCBC Leasing and Finance Corporation (RCBC LFC)***

RCBC LFC, a 99.67% 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 years ended 30 December 2017 and 31 December 2018, RCBC LFC registered a net income of ₱87.80million and ₱120.51 million, respectively. For the year ended 31 December 2019, RCBC LFC's net income was ₱105.63 million.

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, Pilipinas Shell Petroleum Corporation, Grepalife and Malayan.

## 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 five 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"), The Risk Oversight Committee (ROC), which meets monthly, is a board-level committee to which the Board delegated some of its functions with respect to the oversight and management of risk exposures of the RCBC parent bank and subsidiaries (the Group). In this regard, the ROC exercises authority over other risk committees of the Group, with the principal purpose of assisting the Board in fulfilling its risk oversight responsibilities. The ROC oversees the following: 1) The Risk Governance Framework; 2) The Risk Management Function; 3) Adherence to Risk Appetite; 4) Capital Planning and Management; and 5) Recovery Plans;
- the Audit Committee, which meets monthly, reviews the results of internal audit examinations and recommends remedial actions to the Board of Directors as appropriate;
- the Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favourable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favourable review, the RPT Committee endorses transactions to the Board of Directors for approval; and
- the AML Committee, which meets monthly, oversees the implementation of the Bank's AML and terrorist financing prevention program, and ensures compliance thereof. It also ensures that infractions are immediately corrected, issues are addressed, and AML training for officers and staff are conducted.

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.

Supporting the ROC in carrying out its mandate are the Risk Management Group (RMG), and the Credit Management Group (CMG).

The risk management groups are responsible for overseeing the risk-taking activities across the Group, as well as in evaluating whether these remain consistent with the bank's risk appetite and strategic direction. The risk management groups are responsible for identifying, measuring, monitoring, and reporting risk on an enterprise-wide basis.

RMG is independent of all risk-taking business segments and reports directly to the ROC. It participates in ALCO meetings. CMG, on the other hand, assists the risk-taking business segments, by providing the necessary credit support. CMG participates in all the Credit Committees of the Bank.

## 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 December 2019, 26 per cent. of the Bank's total portfolio was represented by loans with remaining maturities of one year or less. [Of the Bank's ₱161 billion total portfolio of investment securities as of 31 December 2019, ₱84 billion (US\$1,665 million), or 52 per cent., 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 (i.e. ODF, TDF and reserves), amounts due from other banks and loans arising from repurchase agreements which accounted for 11 per cent., 2 per cent., and 1 per cent., respectively, of the Bank's total resources as of 31 December 2019. 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 RMG, 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 RMG 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 31 December 2019:



**As of 31 December 2019**

(₹ millions, except percentages)	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non- Maturity	Total
<b>Resources</b>						
Cash (COCI)	83,728	2,935	2,014	-	58,874	147,551
Investments — net	81,467	3,965	38,843	35,077	1,367	160,719
Loans and receivables — net	27,376	73,230	110,665	97,738	121,407	430,416
Other resources — net	103	127	298	100	27,765	28,393
<b>Total Resources</b>	<b>192,674</b>	<b>80,257</b>	<b>151,820</b>	<b>132,915</b>	<b>209,413</b>	<b>767,079</b>
<b>Liabilities</b>						
Deposit Liabilities	54,793	28,183	20,933	3	352,669	456,581
Bills Payable	75,139	-	18,919	7,546	2	101,606
Bonds Payable	12,304	15,000	69,510	-	-	96,814
Subordinated Debt						
Other Liabilities	950	27	-	-	28,251	29,228
Total Liabilities	143,186	43,210	109,362	7,549	380,922	684,229
<b>Equity</b>					<b>82,850</b>	<b>82,850</b>
Total Liabilities and equity	143,186	43,210	109,362	7,549	463,772	767,079
<b>On-book gap</b>	<b>49,488</b>	<b>37,047</b>	<b>42,458</b>	<b>125,366</b>	<b>(254,359)</b>	<b>-</b>
<b>Cumulative on-book gap</b>	<b>49,488</b>	<b>86,535</b>	<b>128,993</b>	<b>254,359</b>	<b>-</b>	<b>-</b>
Contingent Resources	18,088	-	-	-	-	18,088
Contingent Liabilities	24,141	-	-	-	-	24,141
<b>Off-book gap</b>	<b>(6,053)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,053)</b>
<b>Cumulative off-book gap</b>	<b>(6,053)</b>	<b>(6,053)</b>	<b>(6,053)</b>	<b>(6,053)</b>	<b>(6,053)</b>	<b>-</b>
<b>Periodic gap</b>	<b>43,435</b>	<b>37,047</b>	<b>42,458</b>	<b>125,366</b>	<b>(254,359)</b>	<b>(6,053)</b>
<b>Cumulative total gap</b>	<b>43,435</b>	<b>80,482</b>	<b>122,940</b>	<b>248,306</b>	<b>(6,053)</b>	<b>-</b>

### 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. The repricing gap serves as the starting point in assessing impact of interest rate movements to net income (i.e. Net interest income at risk) and capital (i.e. capital-at-risk, economic value of equity, etc.)

### 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 Enterprise Risk division of CRISMS RMG assists senior management: (a) to establish risk concentration limits accepted at the level of the single borrower, related borrower group, industry segments, and sovereign jurisdiction; and (b) to continuously monitor the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group, on the other hand, is responsible for: (i) the development of credit policies relating to account management; (ii) the financial evaluation and credit risk rating of borrowers; and (iii) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits is effectively exercised collectively; (b) business center managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the 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 (“MORB”), i.e., Loans Especially Mentioned (“LEMs”), Substandard, Doubtful, or Loss.

Impairment provisions are recognised based on Expected Credit Loss Methodology adopted by the bank in Jan 2018. The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

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 the MORB, i.e., Substandard, Doubtful or Loss.

### ***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:

<b>Risk Rating</b>	<b>Rating Description / Criteria</b>
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

<b>Risk Rating</b>	<b>Rating Description / Criteria</b>
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:

<b>Rating Scale</b>	
<b>S&amp;P Model</b>	<b>ICCRS</b>
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 weekly basis, Credit Management – Asset Quality consolidates all non-accruing and past due accounts in a report that is sent to the lending groups. The lending groups respond by providing updates on the status of these accounts. These are then reviewed for any unfavourable information and developments which may become reasons/considerations for

flagging. Once an account is flagged, this is then reported to the Risk Oversight Committee and to the Credit and Collection committee periodically.

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 that 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.

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

- **Loss Limit** — represents a ceiling on accumulated month-to-date and year-to-date losses. For trading

positions, a management action trigger (**MAT**) is also usually defined to be at 50 per cent of the Loss Limit. When management action trigger 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 2019, the Bank’s foreign currency VaR was US\$1.4 million. A system of loss limits and MAT is utilised 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.

The Treasury Operations Department undertakes the settlement of funds and securities and follows procedures and controls designed to minimise 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.

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 month 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 December 2019, the Bank's Audit and Compliance Committee is comprised of three independent directors: Adelita A. Vergel De Dios, Vaughn F. Montes, and Laurito E. Serrano.

### **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 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 ("Circular 706") was implemented superseding prior rules and regulations on AMLA. Circular 706 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 Circular 706, 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 2019, the Bank's core capital ratio (the ratio of Tier 1 capital to risk-weighted assets) was 12.89%, while its risk-weighted capital ratio (the ratio of total capital to risk-weighted assets) was 13.76%. The BSP's minimum risk weighted capital ratio is 10.0%.

The following table sets out the capital adequacy ratios (as reported to the BSP) of the Bank as of the years indicated as of 31 December:

(₱ millions)	Year ended 31 December		
	2017	2018	2019
<b>Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital</b>			
1) Capital			
Paid up common stock	13,999	19,356	22,509
Additional paid in capital	22,635	32,061	42,568
Retained Earnings	24,010	27,203	28,069
Undivided profits	4,303	4,372	5,653
Net unrealized gains or losses on AFS securities	1,813	1,436	1,233
Cumulative foreign currency translation	85	54	54
Minority interest in subsidiary financial allied undertaking which are less than wholly-owned	33	25	20
Others	43	(1,248)	(1,733)
<b>Common Equity Tier 1 (CET1) Capital</b>	<b>66,921</b>	<b>83,259</b>	<b>97,086</b>
<b>Less: Regulatory Adjustments to CET1 Capital</b>			
Unbooked valuation reserves and other capital adjustments based on the latest report of examination as approved by the Monetary Board	-	2,599	3,140
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	-	1	1

(P millions)	Year ended 31 December		
	2017	2018	2019
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	-	196	17
Deferred tax assets	2,053	2,233	2,297
Goodwill	158	269	269
Other Intangible Assets	2,034	1,943	1,902
Defined benefit pension fund assets (liabilities)	107	-	-
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/	-	-	-
Other equity investments in non-financial allied undertakings and non-allied undertakings	8,237	8,466	5,574
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)	5	15	15
<b>Total Regulatory Adjustments to CET1 Capital</b>	<b>12,594</b>	<b>15,722</b>	<b>13,215</b>
<b>Total Common Equity Tier 1 Capital</b>	<b>54,327</b>	<b>67,537</b>	<b>70,152</b>
<b>Additional Tier 1 (AT1) Capital</b>			
Instruments issued by the bank that are eligible as AT1 Capital	3	3	3
<b>Less: Regulatory Adjustments to AT1 Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Additional Tier 1 (AT1) Capital</b>	<b>3</b>	<b>3</b>	<b>3</b>
<b>Total Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital</b>	<b>54,330</b>	<b>67,540</b>	<b>70,155</b>
<b>Tier 2 Capital</b>			
Instruments issued by the bank that are eligible as Tier 2 capital	9,968	9,986	-
General loan loss provision	3,146	3,885	4,701
<b>Total Tier 2 capital</b>	<b>13,114</b>	<b>13,871</b>	<b>4,701</b>
<b>Less: Regulatory Adjustments to Tier 2 Capital</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Tier 2 Capital</b>	<b>13,114</b>	<b>13,871</b>	<b>4,701</b>
<b>Total Qualifying Capital</b>	<b>67,444</b>	<b>81,411</b>	<b>74,856</b>

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		
	2017 (%)	2018 (%)	2019 (%)
Core capital ratio (Tier 1) <sup>(1)</sup>	12.5	13.4	12.89
Risk-weighted capital ratio	15.5	16.1	13.76

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:

(R millions)	Year ended 31 December		
	2017	2018	2019
<b>Risk-weighted on-balance sheet assets</b>			
20%	638	696	2,809
50%	28,210	46,123	41,492
75%	7,799	7,658	8,797
100%	327,347	356,730	379,850
150%	9,578	17,227	28,243
<b>Total risk-weighted on-balance sheet assets</b>	<b>373,572</b>	<b>428,434</b>	<b>482,459</b>
<b>Risk-weighted off-balance sheet exposures</b>	12,546	14,719	17,485
<b>Total risk-weighted interest rate and exchange rate related contingencies / Others</b>	1,400	2,334	3,782
<b>Market and operational risk weighted assets</b>	48,751	48,845	61,685
<b>Total risk-weighted assets</b>	<b>436,269</b>	<b>494,331</b>	<b>544,144</b>

## 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 59.52% of the Bank's total assets as of the year ended 31 December 2019. As of 31 December 2019, time, savings and demand deposits represented 45.30%, 39.26% and 15.45%, respectively, of total consolidated deposits of ₱456.58 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:

(₱ millions, except percentages)	As of 31 December					
	2017		2018		2019	
	Amount	Ave. Cost (%)	Amount	Ave. Cost (%)	Amount	Ave. Cost (%)
<b>Deposits by type</b>						
Demand	51,996	0.30	56,413	0.36	70,523	0.35
Savings	165,187	0.30	174,107	0.29	179,247	0.26
Time	171,229	2.10	192,879	3.21	206,811	4.24
<b>Total</b>	<b>388,412</b>	<b>1.10</b>	<b>423,399</b>	<b>1.57</b>	<b>456,581</b>	<b>2.03</b>
<b>Deposits by currency</b>						
Peso	316,544	1.10	336,633	1.74	366,951	2.30
Foreign currency	71,868	0.70	86,766	0.90	89,630	0.99
<b>Total</b>	<b>388,412</b>	<b>1.10</b>	<b>423,399</b>	<b>1.57</b>	<b>456,581</b>	<b>2.03</b>
<b>Borrowing</b>						
Peso	25,826	4.00	27,316	4.44	7,669	10.03
Foreign currency	56,169	4.10	91,761	3.65	190,751	3.14
<b>Total</b>	<b>81,995</b>	<b>4.20</b>	<b>119,077</b>	<b>3.83</b>	<b>198,420</b>	<b>4.27</b>

### Deposits

The Bank's principal sources of deposits are corporations and institutions. As of 31 December 2019, the Bank's largest deposit made up 1.71% of its total deposits, and the Bank's largest five depositors made up 7.13% of its total deposits. As of 31 December 2019, corporate and institutional deposits accounted for approximately 64.8% 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 December 2019, the Bank's foreign currency deposits made up 19.6% 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: (a) Deposit and Drive Raffle Promo (Promo period is 1 Dec 2018 – 31 Mar 2019); (b) the Hexagon Club which is a premiere club program targeting the emerging affluent and affluent customer segments, and aims to attract and make us top of mind of the corporate market particularly the Retail SMEs; and (c) ongoing offering of special CASA rates for select/identified depositor 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 31 December 2019, 54.70% 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 54.45% as of 31 December 2018. The following table sets out, for the periods indicated, an analysis of the maturities of the deposit base of the Bank.

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

(₱ millions)	As of 31 December		
	2017	2018	2019
<b>Deposits by type</b>			
Demand	51,996	56,413	70,523
Savings	165,187	174,107	179,247
Time			
Up to 1 year	148,849	163,764	182,953
Over 1 year to 5 years	10,684	9,316	1,715
Over 5 years	11,696	19,799	22,143
Total time deposits	171,229	192,879	206,811
<b>Total</b>	<b>388,412</b>	<b>423,399</b>	<b>456,581</b>

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 current 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 December 2019, bills payable, which represent borrowings from local and foreign banks, amounted to ₱101.6 billion. As of 31 December 2019, approximately 92.45% of bills payable were denominated in foreign currencies. 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.

(₱ millions, except percentages)	As of 31 December		
	2017	2018	2019
Period-end balance	43,967	55,076	75,141
Average balance during the period	34,356	46,003	43,729
Maximum outstanding	43,967	60,305	101,606
Average interest rate during the period	2.6%	3.36%	3.51%

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 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 5 September 2014, the Bank issued another ₱3 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.

On 26 September 2019, the Bank exercised its Call Option to redeem the Tier 2 Notes prior to its maturity on 27 September 2024. The Tier 2 Notes 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 2017, 2018 and 2019 was ₱ 554.00 million, ₱ 555.00 million, and ₱ 471.00 million, respectively.

### Long-term negotiable certificates of deposit

As of 31 December 2019, the Bank's LTNCDs were as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance
September 28, 2018	March 28, 2024	5.50%	3,580
August 11, 2017	February 11, 2023	3.75%	2,502
December 19, 2014	June 19, 2020	4.13%	2,100

The Bank most recently issued ₱3,580.00 million worth of fixed rate LTNCDs which carry a coupon rate of 5.50% on 28 September 2018 and are scheduled to mature on 28 March 2024. In total, the Bank has ₱8.182 billion in LTNCDs outstanding as of 31 December 2019. 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 upsized its US\$1 billion MTN Programme established on September 2011 to a US\$2 billion MTN Programme. On 15 March 2018, the Bank settled a drawdown of US\$300 million under the MTN Programme. The senior unsecured fixed rate notes were rated Baa2 by Moody's and had a coupon rate of 4.125% per annum and a tenor 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 US\$300 million in senior unsecured fixed rate notes issued on 15 March 2018 to add a second US\$150 million tranche, bringing the total size of the Bank's drawdown from its MTN Programme in 2018 to US\$450 million. On 4 September 2019, the Bank issued US\$300 million worth of bonds maturing in 4 September 2024 ("2024 Bonds"). The 2024 Bonds bear interest at 3.00% per annum, payable quarterly, and was issued out of the Bank's US\$2 billion MTN Programme.

### 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.

Under BSP Circular No. 1041, 1054, and 1056 (2019), universal and commercial banks (including the Bank) are required to maintain regular reserves of (a) 14.0% 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 (c) 0% against deposit substitutes evidenced by repo agreements and inter-bank call loans under Sec. 343 of the MORB), and 3.0% against bonds.

On 15 October 2019, the Monetary Board approved the reduction in the reserve requirement rate for bonds issued by banks and QBs from 6.0% to 3.0%. The reduced reserve requirement ratio was implemented in furtherance of the BSP's commitment to contribute to the deepening of the local debt market. It also intends to incentivize both banks and QBs to tap the domestic bond market as part of their liquidity management.

The new reserve requirement ratio is set to take effect on the reserve week beginning 1 November 2019; hence all issuances of bonds by banks and QBs beginning 1 November 2019 will be covered by the reduced reserve requirement rate.

Liquidity reserves are no longer required pursuant to BSP Circular No. 753 issued in 2012.

On 24 October 2019, the Monetary Board announced that it was reducing the reserve requirement ratio by 100 basis points (or one percentage point) for universal/commercial and thrift banks. The reserve requirement reduction is in line with the BSP's broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs. The adjustment in reserve requirement ratios is also aimed at ensuring sufficient domestic liquidity in support of economic activity. The reduction will be effective on the first day of the first reserve week of December 2019. After the effectivity of the announcement, local banks will only be required to reserve 14% of their deposits and deposit substitute liabilities.

The Bank currently complies with all of the requirements described above.

As of 31 December 2019, the Bank's liquid assets amounted to ₱207.34 billion, representing 27.03% 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).

As of 31 December			
(₱ millions, except percentages)	2017	2018	2019
Liquid assets <sup>1</sup>	110,772	143,340	207,344
Financial ratios			
Liquid assets-to-total assets	20.00%	22.24%	27.03%
Liquid assets-to-total deposits	28.52%	33.85%	45.41%
Net loans-to-total deposits	90.84%	96.51%	100.68%

Notes:

- (1) Liquid assets includes cash and cash items, deposits with the BSP and deposits with other banks, loan and receivables arising from reverse repurchase agreement, interbank loan receivables, FVPL and FVOCI.

## Loan Portfolio

As of 31 December 2019, the Bank's total loan portfolio amounted to ₱449.22 billion, representing approximately 58.6% of its total resources as of that date. The Bank's total consolidated loan portfolio increased by 12.8% from 31 December 2018 primarily due to an increase in loan volume across all segments.

As of 31 December 2019, loans to the corporate market were ₱228.5 billion as compared to ₱219.6 billion as of 31 December 2018. Corporate lending accounted for 52.6% of the total gross loan portfolio of the Bank as of 31 December 2019. Lending to SMEs totaled ₱74.3 billion as of 31 December 2019, accounting for 16.4% of the Bank's total gross loan portfolio. Lending to consumers totaled ₱131.4 billion as of 31 December 2019, accounting for 30.3% of the Bank's total gross loan portfolio.

## Industry Concentration

As of 31 December 2019, the Consumer industry represented the largest sectors of the Bank's consolidated loan portfolio at 31.00%. 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:

(₱ millions, except percentages)	As of December 31					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Real estate, renting and other related activities	53,902	15.28	51,498	13%	54,244	12%
Electricity, gas and water	64,453	18.36	74,380	19%	78,553	18%
Consumer	98,893	28.03	115,151	30%	134,301	31%
Wholesale and retail trade	36,428	10.32	40,454	10%	43,572	10%
Manufacturing (various industries)	34,524	9.78	44,056	11%	40,816	10%
Transportation and communication	19,371	5.49	18,239	5%	20,505	5%
Financial intermediaries	19,683	5.58	24,262	7%	38,617	9%
Other community, social and personal activities	10,811	3.06	6,731	2%	7,595	2%
Agriculture, fishing and forestry	4,636	1.31	4,271	1%	5,439	1%
Hotels and restaurants	4,086	1.17	3,888	1%	4,109	1%
Mining and quarry	1,915	0.54	1,449	-	1,293	-
Others	3,811	1.08	4,694	1%	5,219	1%
<b>Total</b>	<b>352,845</b>	<b>100.00</b>	<b>389,073</b>	<b>100%</b>	<b>434,263</b>	<b>100%</b>

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 2019, the Bank satisfied these requirements as it provided ₱11.17 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:

(₱ millions, except percentages)	As of 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Within one year	92,550	26.23	79,185	20.35	176,596	40.67
More than one year	260,295	73.77	309,888	79.65	257,667	59.33
<b>Total</b>	<b>352,845</b>	<b>100.00</b>	<b>389,073</b>	<b>100.00</b>	<b>434,263</b>	<b>100.00</b>

### ***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 December 2019, 83.38% of the Bank's net loans and receivables portfolio was denominated in Pesos while 16.62% 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:

(₱ millions, except percentages)	As of 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Pesos	299,303	84.49	322,545	80.98	362,083	83.38
Foreign currency	54,940	15.51	75,755	19.02	72,180	16.62
<b>Total</b>	<b>354,243</b>	<b>100.00</b>	<b>398,300</b>	<b>100.00</b>	<b>434,263</b>	<b>100.00</b>

### 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 and Compliance – Interest Rate Risk Management*". The Bank's loan pricing is set by the Bank's 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 Bloomberg Valuation ("BVAL") 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 and Compliance – 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:

(₱ millions, except percentages)	As of 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Fixed rate	132,901	37.67	97,400	25.03	176,225	40.58
Variable or adjustable rates	219,944	62.33	291,673	74.97	258,038	59.42
<b>Total</b>	<b>352,845</b>	<b>100</b>	<b>389,073</b>	<b>100.0</b>	<b>434,263</b>	<b>100.00</b>

The Bank's pricing policy with respect to its interest-bearing liabilities is also set by ALCO at its weekly meetings. Certain current account deposits pay interest on a monthly basis while savings account deposits on quarterly basis. Note that for both Current and Savings deposits, typically the bank pays no interest on accounts that fall below the balance required to earn interest. As of 31 December 2019, the basic rate for Peso savings account deposits that are above the minimum threshold is currently between 0.15% to 0.75% per annum applied to Dragon Savings and Super Earner Savings Deposits depending on amount of deposit. The Bank has offered CASA special rate to select/targeted new and existing clients of up to 2.50% per annum for minimum ₱5 million fresh funds. 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 December 2019, the Bank's single borrower limit, set by the BSP, was ₱20.06 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 December 2019, the Bank's single largest corporate borrower accounted for 2.62% of the Bank's outstanding loan portfolio. As of 31 December 2019, the Bank's ten largest performing borrowers (including groups of individuals and companies) accounted for ₱74.1+ billion, or 17.08% 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:

	As of 31 December		
	2017	2018	2019
₱ 5,000,000 or less	29.00%	30.2%	32.6%
₱ 5,000,000.01 to ₱ 10,000,000	4.20%	4.2%	4.3%
₱ 10,000,000.01 to ₱ 15,000,000	2.20%	2.2%	2.3%
More than ₱ 15,000,000	64.70%	63.3%	60.8%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.0%</b>

### ***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 50.00% to 60.00% of appraised value), unconditional guarantee from fully-owned Government institutions, chattels (with loan values ranging from 30.00% to 50.00% of appraised value), shares of stocks and corporate bonds (with loan value of 50.00% of market value) and club shares (with loan value of 50.00% of market value after transfer costs). As of 31 December 2019, approximately 56.64% of the Bank's total loans were extended on a secured basis, with approximately 41.10% 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:

(₱ millions, except percentages)	As of 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
<b>Secured</b>						
Real estate mortgages	86,193	24.43	113,299	29.12	178,500	41.10
Chattel mortgage	37,975	10.76	44,271	11.38	45,983	10.59
Hold-out deposits	15,799	4.48	9,814	2.52	8,891	2.05
Other securities	26,718	7.57	18,733	4.81	12,592	2.90
<b>Total secured</b>	<b>166,685</b>	<b>47.24</b>	<b>186,117</b>	<b>47.83</b>	<b>245,966</b>	<b>56.64</b>
<b>Unsecured</b>	<b>186,160</b>	<b>52.76</b>	<b>202,956</b>	<b>52.17</b>	<b>188,297</b>	<b>43.36</b>
<b>Total</b>	<b>352,845</b>	<b>100.00</b>	<b>389,073</b>	<b>100.00</b>	<b>434,263</b>	<b>100.00</b>

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. All of the Bank's risk assets, in particular the Bank's loan portfolio, are either pass or classified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are considered pass. 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 five percent 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**

In 2018, the Bank adopted the full version of PFRS 9 requires the Bank to record an allowance for Expected Credit Losses (“ECL”) for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

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

Stage 1 : When loans are first recognized, the Group recognizes an allowance based on the twelve-month ECLs. Stage 1 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 2.

Stage 2 : When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs. Stage 2 loans also include facilities where the credit risk has improved, and the loan has been reclassified from Stage 3.

Stage 3 : When a loan is considered as credit impaired, the Group records an allowance for the lifetime ECL.

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

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

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

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

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:

<b>Risk Classification</b>	<b>Loan loss allowance (% of principal amount of loan)</b>
Especially mentioned	5.0%
Sub-standard (secured)	10.0%
Sub-standard (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:

<b>(₱ millions, except percentages)</b>	<b>As of 31 December</b>			
	<b>2016</b>		<b>2017</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>Risk classification</b>				
Especially mentioned	302.30	12.70	116.83	4.30
Sub-standard – secured	781.90	32.70	1,207.20	44.30
Sub-standard – unsecured	137.30	5.70	456.66	16.80
Doubtful	726.70	30.40	686.72	25.20
Loss	439.90	18.40	257.83	9.50
<b>Total classified</b>	<b>2,388.10</b>	<b>100.00</b>	<b>2,725.24</b>	<b>100.00</b>
Unclassified	212,625.90		245,500.76	
<b>Total</b>	<b>214,964.00</b>	<b>100.00</b>	<b>248,226.00</b>	<b>100.00</b>
<b>Allowance for impairment</b>				
Classified	930.80	25.70	841.19	21.20
Unclassified	2,688.60	74.30	3,130.74	78.80
<b>Total</b>	<b>3,619.40</b>	<b>100.00</b>	<b>3,971.93</b>	<b>100.00</b>

With the full adoption of PFRS 9 on 1 January 2018, the Bank began assessing on a forward-looking basis the ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for losses is based on the ECL associated with the probability of default of a financial instrument in the next twelve months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. If the financial asset meets the definition of a purchased or originated credit impaired, the allowance for losses is based on the change in the ECL over the life of the asset. Accordingly, the Bank began applying a new ECL methodology as of 1 January 2018 according to the following classifications:

- Stage 1: When a debt security is first recognized, the Bank recognizes credit losses based on the twelve-month ECL. Stage 1 debt security also include facilities where the credit risk has improved and security has been reclassified from Stage 2.
- Stage 2: When a debt security has shown a significant increase in credit risk since origination, the Group recognizes an allowance for the lifetime ECL. Stage 2 debt security also include facilities where the credit risk has improved and the security has been reclassified from Stage 3.

- Stage 3: When a debt security is considered as credit impaired, the Bank recognizes an allowance for the lifetime ECL.

The following table shows the Bank's ECL model for its loan portfolio, credit card receivables and other as of 31 December 2019. In the following tables, "Floor" represents the provision to meet BSP's required minimum allowance for credit losses of 1.00%.

<b>ECL Methodology for Loan Portfolio</b>					
	<u>Total exposure at default</u>	<u>Percentage (%)</u>	<u>Total ECL</u>	<u>Floor Total</u>	<u>Total ECL (including floor total)</u>
<b>Risk classification</b>					
A..	364	0.12	0	4	4
A+	15	0.01	0	0	0
BBB	15,527	5.16	2	79	81
BBB-	2,157	0.72	0	19	19
BB+	13,187	4.38	2	127	129
BB	34,138	11.34	7	332	339
BB-	28,204	9.37	21	264	285
B+	41,976	13.94	100	360	460
B	87,021	28.90	193	680	873
B-	59,852	19.88	508	161	669
CCC+ and below	6,139	2.04	412	0	412
Especially Mentioned	1,330	0.44	246	0	246
Substandard	7,615	2.53	3,902	0	3,902
Doubtful	481	0.16	115	0	115
Loss	414	0.14	412	0	414
Unrated	2,658	0.88	51	17	68
<b>Total Loan ECL</b>	<b>301,080</b>	<b>100.00</b>	<b>5,972</b>	<b>2,043</b>	<b>8,015</b>

<b>ECL Methodology for Credit Card Receivables</b>				
	<u>Total exposure at default</u>	<u>Total ECL</u>	<u>Floor Total</u>	<u>Total ECL (including floor total)</u>
<b>Risk classification</b>				
Stage 1	21,177	611	55	666
Stage 2	666	278	0	278
Stage 3	1,267	1,051	0	1,051
<b>Total Credit Card Receivables ECL</b>	<b>23,111</b>	<b>1,940</b>	<b>55</b>	<b>1,995</b>

<b>ECL Methodology for Others and Total ECL Amounts</b>				
	<u>Total exposure at default</u>	<u>Total ECL</u>	<u>Floor Total</u>	<u>Total ECL (including floor total)</u>
<b>Others Total</b>	281	16	0	16
<b>Total ECLs (including loans, credit card receivables and others)</b>	<b>446,475</b>	<b>10,121</b>	<b>3,129</b>	<b>13,250</b>

<b>Year ended December 31</b>			
<b>(₱ millions)</b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>
Total parent allowance	7,182	9,689	12,726
Credit Card Receivables	153	1,300	1,329
	864	1,241	1,031
Unquoted Debt Securities Classified as Loans			
Accrued Interest Receivables	133	102	131
Accounts Receivable	304	704	1,413
Sales Contract Receivables	41	41	18
<b>Net allowance for loans</b>	<b><u>5,687</u></b>	<b><u>6,301</u></b>	<b><u>8,804</u></b>

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 December 2018, the Bank’s allowance for impairment for NPLs to gross NPL ratio was 52.95%. As of 31 December 2019, the Bank’s allowance for impairment for NPLs to gross NPL ratio was 51.61%.

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 percent of the gross loan portfolio plus five percent 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 or loan losses on a consolidated basis over the periods indicated:

	As of 31 December		
(₱ millions)	2017	2018	2019
Balance of reserves at beginning of period	7,411	7,993	10,291
Provisions during the year	2,076	1,879	6,773
Impact of adoption of PFRS 9 (2014)	-	1,680	-
Account written off / others	(1,494)	(1,261)	(3,634)
<b>Balance at the end of the period</b>	<b>7,993</b>	<b>10,291</b>	<b>13,430</b>

### 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:

	As of 31 December		
(in ₱ millions, except percentages)	2017	2018	2019
Non-performing loans — net	4,491	4,316	9,869
Classified loans	8,252	17,299	17,679
Total loans — net	352,883	398,595	453,066
Total non-performing loans-to-total loans (%)	1.30%	1.08%	2.18%
Classified loans/total loans (%)	2.30%	4.34%	3.90%
Non-accruing loans	8,252	17,299	17,679
Non-accruing loans-to-total loans (%)	2.30%	4.34%	3.90%
ROPA — gross	2,545	2,589	3,095
ROPA/total tangible assets (%)	0.40%	0.35%	0.36%
ROPA/total tangible equity (excluding intangibles and deferred tax assets) (%)	3.50%	2.87%	3.44%
Non-performing assets (NPL — net plus ROPA, gross)	10,773	12,090	23,163
Non-performing assets as a percentage of tangible assets (excluding intangibles and deferred tax assets) (%)	1.30%	1.13%	2.01%
Allowance for impairment (total NPAs)	8,139	12,695	15,083
Allowance for impairment (loans)	7,507	12,027	13,968
Allowance for impairment (other ROPA)	632	668	1,115
Allowance for impairment (loans) as a percentage of total non-performing loans (%)	94.90%	131.11%	79.01%
Allowance for impairment (total) as a percentage of total non-performing assets (%)	73.43%	101.94%	64.10%
Total restructured loans	887	847	955
Classified as performing	638	204	142
Classified as non-performing	249	643	813
Restructured loans as a percentage of total loans (%)	0.30%	0.21%	0.21%

(in ₦ millions, except percentages)	As of 31 December		
	2017	2018	2019
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as performing (%)	101.80%	170.71%	97.34%
Allowance for impairment (total) as a percentage of non-performing assets and restructured loans classified as non-performing (%)	107.00%	161.18%	93.30%
Loans — written off	240	293	399

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:

(₦ millions, except percentages)	As of 31 December					
	2017		2018		2019	
	Amount	%	Amount	%	Amount	%
Agriculture, hunting, forestry and fishing	2.60	0.09	100.14	2.65	105.00	0.65
Coconut production, sugar production & fishing	0.00	0.00	0.00	0.00	0.00	0.00
Mining and quarrying	0.00	0.00	0.00	0.00	0.00	0.00
Manufacturing	131.70	4.62	600.14	15.88	5,126.24	31.87
Electricity, gas and water	285.00	10.00	285.00	7.54	285.00	1.77
Wholesale and retail trade	512.44	17.98	683.87	18.10	1,710.90	10.64
Hotels and restaurants	16.34	0.57	23.70	0.63	19.09	0.12
Transportation, storage and communication	36.22	1.27	44.46	1.18	536.30	3.33
Financial intermediation	16.98	0.60	53.56	1.41	5.18	0.03
Diversified holding company	0.00	0.0	0.00	0.00	0.00	0.00
Real estate and other business activities	939.61	32.96	1,017.95	26.94	1,311.39	8.15
Health and social work, education and other community, social and personal services	15.36	0.54	36.31	0.96	56.62	0.35
Others	894.41	31.38	933.67	24.71	6,929.12	43.08
<b>Total</b>	<b>2,850.65</b>	<b>100.00</b>	<b>3,778.81</b>	<b>100.00</b>	<b>16,084.84</b>	<b>100.00</b>

The Bank's gross NPLs on a consolidated basis represented approximately 3.90% of the Bank's total consolidated gross loan portfolio of as of 31 December 2019. As of 31 December 2019, ₦2.27 million of the Bank's loans to DOSRI were classified as NPLs.

### *Ten Largest NPLs*

As of 31 December 2019, the Bank's ten largest NPLs accounted for 1.60% of its total loans to customers and 39.28% of its gross NPLs to customers. As of this same date, the Bank's exposure to its ten largest NPLs ranged from ₦4,113 million to ₦168 million and amounted to approximately ₦6,943.5 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 December 2019, the Bank had a consolidated portfolio of approximately ₱955 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:

(₱ millions)	Year ended 31 December		
	2017	2018	2019
Non-performing restructured loans	249	643	813
Performing restructured loans	638	204	142
<b>Balance at the end of the period</b>	<b>887</b>	<b>847</b>	<b>955</b>

### ***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 ₱4.02 billion as at the period ended 31 December 2019, ₱3.27 billion, and ₱3.51 billion as at the years ended 31 December 2017 and 2018 respectively. On a non-consolidated basis, of the total ROPA as of 31 December 2019, ₱21.6 million consisted of the Bank's holdings in shares of stocks and chattels and ₱692.63 million represented the Bank's holdings in real property, which comprised 193 properties.

The Bank's valuation reserves on ROPA amounted to ₱445.71 million for the year ended 31 December 2019 as compared to ₱386.17 million for the year ended 31 December 2018.

The Bank sells its ROPA through 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.

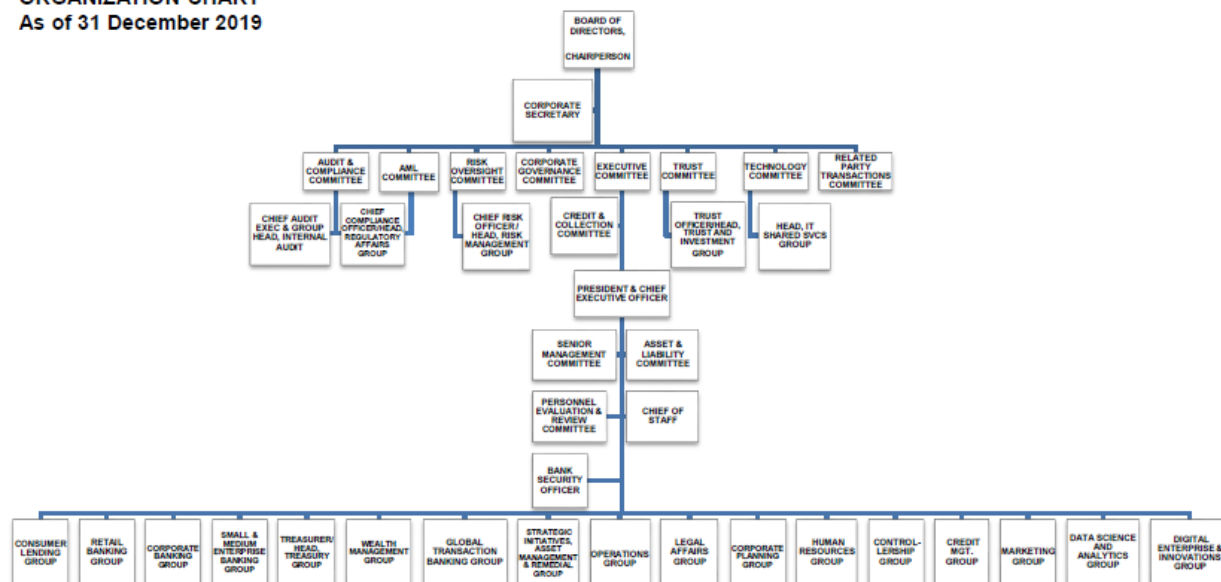
The Bank experienced no defaults with respect to ROPA sold on an installment basis covering ROPA sales from January 1 to December 31, 2019. For the year ended 31 December 2019, the Bank sold ₱281 million of ROPA.



## MANAGEMENT, EMPLOYEES AND SHAREHOLDERS



### ORGANIZATION CHART As of 31 December 2019



### Board of Directors and Executive Officers

The names and positions of all the Bank's directors are as follows:

**Ms. Helen Y. Dee.** Ms. Dee 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., and Malayan Insurance Co., Inc. She graduated from Assumption College with a Bachelor of Science degree in Commerce and completed her Masters in Business Administration at De La Salle University.

**Mr. Cesar E. A. Virata.** Mr. Virata has been a Director since 1995, Corporate Vice Chairman since June 2000 and Senior Adviser from 2007. Mr. Virata's roster of companies where he is also a Director and/or Chairman includes RCBC Realty Corp., RCBC Land, Inc., Malayan Insurance Co., Inc., Business World Publishing Corporation, Belle Corporation, Luisita Industrial Park Corporation, RCBC Bankard Services Corporation, 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 Masters in Business Administration from the Wharton Graduate School, University of Pennsylvania.

**Mr. Eugene S. Acevedo.** Mr. Acevedo is the Bank's President and Chief Executive Officer. He has over thirty (30) years of banking experience gained from local and multinational banks including Union Bank of the Philippines, CitySavings Bank, Philippine National Bank, and Citibank Philippines, N.A. He is a Magna Cum Laude graduate from the University of San Carlos where he earned a degree in Bachelor of Science in Physics in 1984. He has a

Masters degree in Business Administration from the Asian Institute of Management and completed an Advanced Management Program at the Harvard Business School.

**Mr. Gil A. Buenaventura.** Mr. Buenaventura has been a Director of the Bank since July 2016. He was also President and Chief and Executive Officer until 30 June 2019. He holds directorship and officership positions in GAB Realty Incorporated, RCBC Capital Corporation, RCBC Leasing and Finance Corporation, RCBC Rental Corporation, Rizal Microbank, 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 Masters of Business Administration in Finance from the University of Wisconsin.

**Arnold Kai Yuen Kan.** Mr. Kai Yuen Kan has been a Director of the Bank since June 2019. He gained experience from Citibank, the First National Bank of Chicago, the National Westminster Bank, JP Morgan Chase Bank, Credit Agricole Corporate & Investment Bank, and Krea Capital Limited. He is currently the Chief Executive of Cathay United Bank's Hong Kong Branch and Head of the International Banking Group. He is also a Director of Cathay United Bank (China) Ltd. He graduated with a Bachelor of Social Sciences degree from the University of Hong Kong and obtained a Masters degree in Business Administration from the York University in Canada.

**Mr. Richard Gordon Alexander Westlake.** Mr. Westlake 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 of Dairy Goat Co-operative (NZ) Limited, New Zealand, the world's leading producer and exporter of goat milk infant formula. He holds a Masters degree from Oxford University in England. He is an Accredited Fellow at the Institute of Directors in New Zealand.

**Mr. John Law.** Mr. Law 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 Masters of Business Administration degree from Indiana University; and a Masters of Arts degree, major in Poetry, from the University of Paris, France.

**Mr. Shih-Chiao (Joe) Lin.** Mr. Lin has been a Director of the Bank since 25 March 2019, taking the place of Mr. Francis Peng. He has been with Cathay Life Insurance for over 20 years and is currently an Executive Vice President there. He graduated with a Bachelor's degree in Business Administration from the National Chengchi University and holds an MBA from the National Taiwan University.

**Mr. Armando M. Medina.** Mr. Medina 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. He is also an Independent Director of RCBC Savings Bank 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.** Mr. Santos 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., East-West Seeds Co., Inc., and Alaska Milk Corporation, among others. He is a Director of Philippine Investment Management (PHINMA), Inc. and PHINMA Corp. 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 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.** Amb. Bautista has been an Independent Member of the Bank's Advisory Board since 3 July 2017. Prior thereto, she served as the Director General of PEZA from 1995 to 2016. Other positions she has held include being Board Member of the Cagayan and Zamboanga Economic Zones, Commissioner of the National Amnesty Commission, Executive Director of the Department of Trade and Industry Price Stabilization Council and Director of the Bureau of Trade, and Chief Operating Officer of the World Trade Center Manila. She is the recipient of numerous local and international awards including the 2017 Ramon Magsaysay Award, The Order of the Rising Sun-Gold and Silver Star (Japan), and The Outstanding Women in the Nation's Service (TOWNS) in the field of law.

**Atty. Adelita A. Vergel De Dios.** Atty. Vergel De Dios has been an Independent Director of the Bank since June 2016. She was also an Independent Director of RCBC Savings Bank. 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.** Mr. Montes has been an Independent Director of the Bank since September 2016. He is a Trustee at Parents for Education Foundation (“PAREF”), PAREF Northfield School for Boys, PAREF Westbridge School for Boys, Foundation for Economic Freedom, and Center for Family Advancement; Chairman and President at PAREF Southridge School for Boys; and a Director of the 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.** Mr. Claudio, Filipino, 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.

**Mr. Laurito E. Serrano.** Mr. Serrano became an independent director of the Bank effective 20 March 2019, taking the place of Mr. Melito S. Salazar, Jr., who passed away in February 2019. Mr. Serrano was a part of the Audit & Business Advisory Group and later became a partner of SGV & Co. His past experience includes, among others, directorships in Metro Global Holdings Group, MJCI Investments, United Paragon Mining Corp., and Philippine Veterans Bank. He has a Bachelor of Science degree in Commerce (Major in Accounting) from the Polytechnic University of the Philippines and a Masters degree in Business Administration from the Harvard Graduate School of Business.

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 and Compliance Committee is a board-level committee constituted to perform the following core functions:

- Oversight of the institution’s financial reporting and control, and of internal and external audit functions. This includes responsibility for the setting up of internal audit and for the appointment of the internal auditor as well as the independent external auditor who shall both report directly to the Audit and Compliance Committee.

- Investigation of any matter within its terms of reference, with full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings and adequate resources to enable it to effectively discharge its functions.
- The review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management, to be conducted at least annually.
- Oversight of regulatory/compliance aspects.

#### ***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 (ROC) is a board-level committee to which the Board delegated some of its functions with respect to the oversight and management of risk exposures of the RCBC parent bank and subsidiaries (the Group). In this regard, the ROC exercises authority over other risk committees of the Group, with the principal purpose of assisting the Board in fulfilling its risk oversight responsibilities. The ROC oversees the following: 1) The Risk Governance Framework; 2) The Risk Management Function; 3) Adherence to Risk Appetite; 4). Capital Planning and Management; and 5) Recovery Plans.

#### ***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 and positions of all the Bank's executive officers are as follows:

**Eugene S. Acevedo**, Filipino, President and Chief Executive Officer effective 1 July 2019. Mr. Acevedo brings with him over thirty years (30) years of solid banking experience which he gained from local and multinational banks. With his expertise in strategy formulation, business development, origination, relationship building, cost reduction and risk control, he has successfully handled challenging roles and led sales and revenue generating teams in the said

banks. His exposure focused on the following areas: Corporate Banking, Retail Banking, Treasury, Trust, Consumer Finance, Marketing, Credit and Remittance.

He was last connected with Union Bank of the Philippines (“UnionBank”) where he was a Senior Executive Vice President for Corporate and Retail Banking from November 2011 to 6 Nov 2018. In a concurrent capacity, he served as the Chairman of CitySavings Bank, UnionBank's thrift bank subsidiary from March 2013 to 6 Nov 2018. Prior to this, he was the President and Chief Executive Officer/Vice Chairman of the Board of the Philippine National Bank from May 2010 to July 2011.

He gained most of his banking experience at Citigroup (1987 to 2010) where he started as a Management Associate for Citibank Philippines, N.A. in 1987. The following are the various roles he handled in the said institution: Managing Director and Head of Global Markets - Hong Kong and Taiwan Cluster; Country Treasurer - Hong Kong; Managing Director, Country Treasurer & Head of Emerging Markets Sales and Trading; Director / Asia Pacific Regional Derivatives Sales Head; Head of Sales and Structuring/Vice President; Vice President for Derivatives Marketing – Asia; Assistant Vice President for Corporate Audit - North Asia; Manager/ Assistant Vice President - Money Market, Foreign Exchange, Bond Trading and Derivatives Trading; and Operations Officer.

During his stints with the banks, he also concurrently performed significant roles for subsidiaries and actively participated in community and industry affairs.

Mr. Acevedo is a Magna Cum Laude graduate from the University of San Carlos where he earned a degree in Bachelor of Science in Physics in 1984. He finished his Masters in Business Administration, ranking first in the graduating class in 1987, at the Asian Institute of Management. He completed an Advanced Management Program at the Harvard Business School in 2014.

**Horacio E. Cebrero III**, Filipino, Senior Executive Vice-President, is the Treasurer/ Head of Treasury Group. Prior to joining RCBC in 5 November 2018, he was connected with the Philippine National Bank where he was the Treasury Head, a role which he handled since July 2010. He was previously employed by East West Banking Corporation where he worked as Treasurer from August 2006 to July 2010. He also worked in RCBC in 2004 until 2006 as Deputy Treasurer. He had stints with other firms as follows: Citibank N.A. (Manila) as Chief Dealer; Asian Bank Corporation as Vice President for Treasury Group, AB Capital and Investment House as Manager for Financial Markets; Anscor Capital and Investment House as Manager for Financial Markets, Asian Savings Bank as Manager for Trust and Investments Division; Asia Trust Development Bank as Account Officer; and at Far East Bank & Trust Company as Account Supervisor for Branch Treasury Marketing and Loans & Credit Analyst for Loans and Credit Department. He also held directorships in various firms as follows: PNB Europe as Chairman from January 2016 to November 2018; PNB Capital and Investment Corporation as Director from July 2016 to November 2018; PNB Forex Corporation as Director from August 2014 to 2017; and AIG Philam Savings Bank as Director from March 2009 to September 2009. He graduated with a degree in Bachelor of Science in Commerce major in Marketing Management in 1983 at De La Salle University in Manila. He earned some units in Master of Business Administration at the Graduate School of Business Economics of the same university. He attended and finished Stanford Senior Executive Leadership Program (SSELP), an advance 5-part Executive Education Course Series in Stanford University at Arthur and Toni Rembe Rock Center Hong Kong in December 2017.

**Redentor C. Bancod**, Filipino, Senior Executive Vice-President, is the Head of the IT Shared Services Group. He was appointed on 1 July 2018 to a concurrent role as Head of Operations Group. He was also designated as Chief of Staff on 2 November 2017. Prior to assuming these roles, he was the Head of IT Shared Services & Operations Group and the concurrent head of Digital Banking Group. Previously, he was Vice-President & General Manager, Central Systems Asia of Sun Life Financial, Asia and Senior Vice-President and Chief Technology Officer of Sun Life Of Canada (Philippines) Inc. from October 2003 to 2007; Senior Vice-President & Chief Information Officer of Equitable Bank from July 1996 to September 2003; Assistant Vice-President and Head of Applications Development in Far East Bank from October 1993 to June 1996; Assistant Vice-President of Regional Operations (Asia Pacific) of Sequel Concepts, Inc. U.S.A./Ayala Systems Technology Inc. from November 1992 to September 1993; Project Manager in Union Bank of Switzerland, NA from April 1988 to November 1992; and Chief Designer and Technical Adviser in Computer Information System Inc. from March 1984 to April 1998. He obtained his Bachelor of Arts degree in Philosophy from the University of the Philippines and is a candidate for a Master of Science degree in Information Management from the Ateneo de Manila University.

**John Thomas G. Deveras**, Filipino, Senior Executive Vice-President, is the Head of Asset Management & Remedial Group and Strategic Initiatives. Initially, he was the Strategic Initiatives Head when he joined RCBC in 2007 but was appointed as Head of Asset Management & Remedial Group in October 2015. Prior to joining the Bank, he was an Investment Officer at International Finance Corporation. He also worked for PNB Capital and Investment Corporation as President and PNB Corporate Finance as Senior Vice-President. He obtained his Bachelor of Science degree in Management Engineering from the Ateneo de Manila University and earned his Masters in Business Administration from the University of Chicago.

**Rommel S. Latinazo**, Filipino, Executive Vice-President, is the President and Chief Executive Officer of RCBC Savings Bank. Prior to this, he was the Head of Corporate Banking Segment 1 under the Corporate Banking Group. He joined the Bank in 2000 as First Vice-President. Previously, he held various positions in Solidbank Corporation, Standard Chartered Bank, CityTrust Banking Corporation, First Pacific Capital Corporation and Philamlife Insurance Company. Mr. Latinazo obtained his Bachelor of Science degree in Management from the Ateneo de Manila University and his Masters in Business Administration from the University of the Philippines.

**Richard C. Lim**, Filipino, Executive Vice President, is the Head of Retail Banking Group effective 14 September 2018. Prior to this, he was seconded to RCBC Savings as Chief Operating Officer. Mr. Lim previously worked with Maybank Inc. Last position he held in the said bank was as Head of Retail Banking. He also handled the following roles in the said bank: Head of Retail Marketing Management, Assistant Vice President for Cash Management Services, Head of Consumer Sales Department, and Cluster Head for Binondo Manila area. He also had stints with other banks namely, Philam Bank -AIG where he worked as Manager for Binondo Branch, International Exchange where he functioned as Assistant Manager/ Sales Officer, Banco De Oro, where he was a Marketing Officer, Urban Bank, where he performed the role of a Marketing Associate, and Chinabank where he was designated as an Officer's Assistant at the Cash Department. He graduated from the University of Santo Tomas in 1991 with a degree in Bachelor of Science major in Biology.

**Ana Luisa S. Lim**, Filipino, Executive Vice-President, is the Chief Compliance Officer and Head of Regulatory Affairs Group. She was formerly the Head of Operational Risk Management Group prior to assuming her current role. She was also the Head of Internal Audit Group prior to her transfer to Operational Risk Management. She is also a Director and Corporate Secretary of BEAM Exchange, 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**, Filipino, Executive Vice President, is the Chief Audit Executive and Head of the Internal Audit Group. Her banking background includes being the Chief Financial Officer and Controller of Bank of Commerce from December 2013 to August 2017, and prior to that, she was the Chief Internal Auditor/Head of Internal Audit of BDO Unibank, Inc. from September 2010 to January 2013. She also had experiences from other banks as follows: as Director of Head of Finance at ING Bank NV-Philippine Branch from August 2001 to July 2007; as Controller at Philippine Savings Bank from October 1991 to July 1993, and as Head of Division 1 of Audit Group in Metrobank from October 1988 to October 1991.

She had other experiences gained from engagement with various firms which include the following : as Managing Director for Worldwide Financial Marketing Alliance; as Senior Consultant/Partner at Diaz, Murillo Dalupan & Co., CPAs, as Part time Internal Auditor for CBCP-Caritas Filipinas Foundation Inc., NASSA, as Part-time Executive Director (Pro Bono) at iTeach, Inc; as Chief Financial Officer, Treasurer of Sun Life of Canada (Phils) Inc., as Chairman of the Board and President (Pro Bono) of the Institute of Internal Auditors; as Director for Assurance (Banking and Insurance Business) of KPMG Laya Mananghaya & Co. CPAs; as Regional Finance Head of Sun Life Assurance Co. of Canada - Asia Pacific Division (Philippine Branch) and as Manager-Tax Division, TCG; Started as Financial Auditor (Banking Clients) at Sycip Gorres Velayo & Co.

Ms. Vegamora graduated from the University of the East, in 1980 with a degree in BS Business Administration, major in Accounting. She completed her Masters in Business Administration (Abridged) in 1998 offered in Manila by the New York Institute of Finance. She is a Certified Public Accountant (1980) and a Certified Internal Auditor (Institute of Internal Auditors International, USA 1999). She also obtained a Certification in Risk Management Assurance given by the Internal Auditors International, USA 2012. She is a graduate of the Professional Directors Program of the Institute of Corporate Directors and a Fellow at the same institute.

**Angelito M. Villanueva**, Filipino, Executive Vice President, is the Bank's Chief Innovations and Inclusion Officer. Prior to joining RCBC, he pioneered the FinTech business in firms such as PLDT Group and was among the founding executives of the PayMaya e-wallet. He was the Managing Director of FINTQnologies Corp, the financial technology (FinTech) arm of Voyager Innovations from June 2013 to 31 March 2019. He was also a Member of the Board of Directors in FINTQnologies (June 2017 to March 2019) and FINTQSurelite Insurance Agency (June 2017 to March 2019).

His previous stints include the following roles in various institutions and organizations: Founder and Lead Convenor of KasamaKa Financial Inclusion Movement (September 2017 to 31 March 2019); Head, Customer Strategy and Market Activation, Visa, Nov 2011 – Jan 2013; Short-term Consultant on Mobile Money Transfer in Mongolia at IFC World Bank Group, Aug 2011 – Dec 2011; Monitoring and Evaluation (M&E) Consultant at Department of Social Welfare and Development-World Bank, March 2011 – February 2012; VP and Head, Mobile Financial Services - Smart Communications, Inc., Feb 2007 – Jan 2009; Regional Manager for Marketing and Special Projects for APAC and EMEA at BCD Travel 2003 – 2006; Executive Director and VP at Luntiang Pilipinas (Green PH) Foundation, Inc. 2000 – 2003; Chief of Division, Overseas Correspondent Banking Department, Global Banking Group at Land Bank of the Philippines, 1995 – 2000; Senior Research Associate and Associate Editor at Economist Intelligence Unit (EIU) Phils. 1993 – 1995.

Mr. Villanueva graduated from the University of Santo Tomas in 1992 with a degree in Bachelor of Arts in Political Science. He completed a Master in National Security Administration at the National Defense College of the Philippines in 2000. He also finished his Master in Public Administration as Magna Cum Laude at the University of Santo Tomas in 2000.

**Simon Javier A. Calasanz**, Filipino, Executive Vice President, is the President and CEO of RCBC Bankard Services Corporation. Prior to this, he worked for over 13 years at The Hongkong Shanghai Banking Corporation Limited, where he handled the following roles: Senior Vice President and Head of Contact Center Management and Consumer Loans (February 2012 to October 2015), Senior Vice President and Head of Cards and Consumer Assets (January 2009 to January 2012), Vice President for Credit Approval Risk Management (May 2007 to January 2009), OIC for Consumer Credit and Risk (September 2008 to November 2008), Assistant Vice President for Personal Financial Services (September 2006 to April 2007), Manager for Third Party Verification Agencies and Process Management (July 2005 to September 2006), Assistant Manager for Quality Review and Systems Support (December 2004 to July 2005), Manila Credit and Risk Support Manager-Manila Project Team (August 2004 to October 2004), Assistant Manager for Management Information Systems (June 2003 to December 2004), Management Information Credit Analyst (September 2002 to June 2003) and Credit Approval Unit Credit Analyst (April 2002 to September 2002). In addition, he also performed significant roles for the Credit Card Association of the Philippines where he is currently the Special Advisor to the Board, and for the Credit Management Association of the Philippines in which the last position he assumed was as Director in 2008. Mr. Calasanz graduated from De La Salle University with a Bachelor of Science degree in Commerce, major in Marketing Management and Bachelor of Arts degree in Psychology.

**Emmanuel T. Narciso**, Filipino, Executive Vice President, is the Group Head of Global Transaction Banking. Prior to joining RCBC, he was the Group Head of Transaction Banking in Banco de Oro Unibank, Inc. from June 2011 to August 2015. He was also previously connected with The Hongkong and Shanghai Banking Corporation Limited, where he handled the following roles: Head of Business Banking Division (Philippines), Head of Payments and Cash Management for Vietnam and Philippines. He also worked for Security Bank Corporation as Head of Corporate Transaction Banking Division and Citibank N.A. where his last appointment was as Business Development Head for Global Transaction Services. Mr. Narciso started his career in the banking industry when he was hired by the Bank of the Philippine Islands as an Analyst/Programmer in 1984. He obtained his Bachelor of Arts in Economics from the Ateneo de Manila University in 1984 and finished his Master in Business Management from the Asian Institute of Management in 1989.

**Jamal Ahmad**, 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 Masters 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**, Filipino, First Senior Vice-President, is the Head of Corporate Planning Group. Prior to assuming this position, she was the OIC of Corporate Planning Group from October to December 2014 and the Financial Planning and Development Division Head from August 2006 to September 2014. She worked with various institutions in the following capacities: Financial Planning Officer at Banco de Oro from July 2005 to July 2006, Corporate Planning Officer at RCBC from 1999 to 2005, Risk Management and Planning Officer of Malayan Bank from 1998 to 1999, Research Officer of Unicapital, Inc. from 1995 to 1996 and Credit/Financial Analyst of Multinational Investment Corporation from 1991 to 1995. Ms. Alvarez graduated from Ateneo de Manila University in 1991 with a Bachelor of Arts degree in Management Economics. She earned her Masters in Business Management degree from the Asian Institute of Management in 1998.

**Marita E. Bueno**, Filipino, First Senior Vice President, is the Head of Data Science and Analytics Group. She has over twenty-four (24) years of professional experience and her expertise are in the fields of data analytics and predictive modeling, risk management, program management, credit management, credit policy development and implementation, and portfolio risk management.

Prior to joining RCBC, she was previously connected with Union Bank of the Philippines where she was the Head of Data Science and Analytics Group, a role which she handled since August 2015. By April 2018, she was appointed to concurrently handle the same role in Aboitiz Equity Venture.

Ms. Bueno also had previous stints with other banking/financial firms such as Citibank and JP Morgan Chase. She started her banking career with Citibank in 1994 as an Analyst for Credit Acquisitions Direct Mail Processing. She handled other roles such as Project Manager for Credit Card Acquisitions Preapproved Direct Mail Processing; Unit Manager for Credit Acquisitions; Senior Credit Analyst and Vice President for Portfolio Risk Management; Vice President for Existing Cardmember Marketing; Vice President for Travel & Leisure Acquisitions Risk Management (New York); Vice President for Regional Decision Management (Singapore); Chief of Staff, Regional Risk Management (Hong Kong). Her last position in the said bank was as Regional Director/Credit Products Analytics Head, Regional Decision Management (Singapore). During her employment with JP Morgan Chase, she handled the following roles: Scored Underwriting Policy Manager/Vice President for Small Business Financial Services Risk Management and Vice President for Credit Policy and Account Management for Overdraft Line of Credit and Loans.

She is a Magna Cum Laude graduate of St. John's University in New York where she earned a Bachelor of Science degree in Computer Science in 1991. She finished Master of Business Administration on Quantitative Analysis in the same university in 1994.

**George Gilbert G. dela Cuesta**, Filipino, First Senior Vice President, is the Group Head of the Legal Affairs Group and the Bank's Corporate Secretary. He joined RCBC in November 2016 as Deputy Head for Legal and Regulatory Affairs Group. Previously, he was Head of Legal for Asian Terminals for more than seven (7) years. He previously worked also as General Counsel for Hanjin Heavy Industries & Construction Co. Ltd. and for Mirant (Phils) Corporation. He had previous consultancy engagements and employment with Folloso Morillos & Herce Law Office, 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. He earned his Law degree from the same university in 1992.

**Elizabeth E. Coronel**, Filipino, First Senior Vice-President, is the Head of Corporate Banking Group. She joined RCBC in June 2013 as Senior Banker and Head of Conglomerate Banking Division and was assigned as Segment Head of Conglomerates and Global Corporate Banking, a role which she performed on August 2014 until she was appointed as Group Head in June 2018. Previously, she was the Senior Vice-President and Chief Operations Officer of Equicom Savings Bank, a position she held for more than five years. She also held various positions in local and foreign banks namely Mizuho Corporate Bank as Vice President and Co-Head of Corporate Finance Department (January 2007 to February 2008), Equitable PCIBank as Vice-President and Head of Corporate Banking Division 4 (1996 to 2007) and Citibank as Relationship Manager of Global Consumer Bank (1993 to 1996). She started her career in the banking industry when she joined RCBC in 1989 as Marketing Assistant for Corporate Banking. Ms. Coronel obtained her Bachelor of Arts degree in Behavioral Science from the University of Santo Tomas and earned MBA units from the Ateneo Graduate School of Business. She also completed the Mizuho-ICS (MICS) Mini-MBA program at Hitotsubashi University Graduate School of International Corporate Strategy.



**Remedios M. Maranan**, Filipino, First Senior Vice-President, is currently the Deputy Group Head of Operations Group, a role which she assumed on July 1, 2018. Prior to this, she was designated as the Special Assistant to the Retail Banking Group Head for Business Controls. In Retail Banking Group, she also previously handled the role as National Service Head. Ms. Maranan started as a BOTP Trainee in 1989 after which she assumed various positions in branch operations. Her noteworthy stints include being the Regional Operations Head for Metro Manila in December 1998 to April 2004, BC Services Division Head in May 2004 to May 2008 and Regional Service Head for Metro Manila in June 2008 to February 2010 and Deputy Group Head of BC Services from March 2010 to September 2013. She obtained her Bachelor of Science degree in Commerce majoring in Accounting from the Polytechnic University of the Philippines.

**Yasuhiro Matsumoto**, Japanese, First Senior Vice-President, is the Head of Global and Ecozone Segment and concurrently, Head of the 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.

**Mario T. Miranda**, Filipino, First Senior Vice President, is the Trust Officer / Head of Trust and Investment Group. Before joining RCBC, he was the President and CEO of BPI Asset Management and Trust Corporation. Prior to this role, he handled the following in the said bank: as Trust Officer/Head of Asset Management and Trust Group; as Head of Wealth Management, Asset Management and Trust Group, Relationship Manager/Team Leader for the Private Banking Segment in Consumer Banking Group, Marketing Head of Preferred Banking Segment in Consumer Banking Group; Head of Trust Marketing Division under Asset Management and Trust Group; as Head of AMTG Operations Division in Asset Management and Trust Group, Concurrent Head of Investment Management Division; as Concurrent Head of Investment Management Division and Retail Marketing Division. He also had previous concurrent Trust Officer functions at BPI Capital Corporation. In addition to the above, he handled the following at BPI Asset Management and Trust Corporation: as Concurrent Head of Investment Management Division and Account Management Division; as Head of Investment and Credit Department; as Senior Manager for Research Investments and Credit Department; as Manager for Equities and Real Estate Investments Unit/ Investments Department, as Head of Investments Credit Research Trading Unit of the Ayala Insurance Companies and Ayala Related Account Department under Capital Markets Group. He started to work in this bank as a Management Trainee. He also had stints with the following: Trebel Industries, Inc as Corporate Treasurer and Controller; Security Pacific National Bank in Los Angeles, CA. as a Management Associate, Bancor Development Corporation (merged with UnionBank) as Credit Evaluation Analyst. He was also a Part-time faculty member of the Mathematics Department, Graduate School of the Ateneo de Manila University from 2009 to 2011. He finished his Master of Business Administration at University of California in 1983 while his degree in Bachelor of Science in Management Engineering was obtained in Ateneo De Manila University in 1980.

**Reynaldo P. Orsolino**, Filipino, First Senior Vice-President, is the Segment Head of Emerging Corporates. He was also the Head of Commercial & Medium Enterprises Division before assuming his current position. Prior to joining the Bank, he served as Senior Vice-President of Philippine National Bank from June 2003 to July 2007, and previously held senior positions at the Planters Development Bank, Asian Banking Corporation, and the Land Bank of the Philippines. He holds a Bachelor of Arts degree in Economics from the University of the Philippines.

**Alberto N. Pedrosa**, Filipino, First Senior Vice-President, is the Head of Asset and Liability Management Group and concurrent Head of Asset Portfolio Management Segment in Treasury Group. Prior to assuming this role in May 2019, he was Head of Investment and Markets Trading and Balance Sheet Management Group since July 2017. He handled other roles in the bank as follows: Head of Investment and Markets Trading Segment from July 2015 to June 2017 and Investment Portfolio Management Division Head from August 2009 to June 2015. Prior to joining the Bank, he was the Chief Trader for Uniworks, Inc. (April 2009 to July 2009), Vice-President and Head of Global Liquid Products Trading for JG Summit Capital Markets (2000 to 2008), Assistant Vice-President of Asset, Liquidity Management and Investment Trading for PCIBank (1995 to 2000) and Senior Assistant Manager and Junior FX Trader for the Bank of the Philippine Islands (1993 to 1995). Mr. Pedrosa started his career when he joined BPI's Officer Training Program in 1993. He completed his Bachelor of Science degree in Commerce majoring in Philosophy at the London School of Economics.

**Joseph Colin B. Rodriguez**, Filipino, First Senior Vice President, is the President and CEO of RCBC Forex Brokers Corporation. Prior to this appointment, he was the Treasurer of RCBC Savings Bank in September 2016 to and before this secondment, he was the President and Chief Executive Officer of RCBC Forex Brokers Corporation from April 2015 to August 2016 and Senior Vice President and Treasurer of RCBC Savings Bank from August 2011 to March

2015. He also assumed various positions in Rizal Commercial Banking Corporation as Head of the FX Risk Division and Head of Institutional Relationship Management Division. Before joining RCBC, he spent over two decades at the Treasury division of several foreign /local banks. He was Vice President and Head of the Foreign Exchange and Swap Desk at ING Bank Manila. He was also a Dealer at the Manila office of Banque Indosuez and Assistant Dealer at the Riyadh office of Banque Al Hollandi (ABN AMRO Bank). He also headed the FX and Swaps division of Bank of the Philippine Islands. He graduated from De La Salle University with a double degree in Liberal Arts & Commerce, Major in Marketing and in Political Science.

**Bennett Clarence D. Santiago**, 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. Prior to joining RCBC, he was the Business Head for Small Business Loans in the Consumer Lending Group of BDO Unibank, Inc. His experiences also 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 The Hongkong and Shanghai Banking Corporation Limited. He graduated from the University of the Philippines in 1991 with a Bachelor of Science degree in Business Administration. He finished his Masters in Business Administration in 2001 from Ateneo Business School.

**Rowena F. Subido**, Filipino, First Senior Vice-President, is the Group Head of Human Resources. She was also the Deputy Group Head of Human Resources before assuming her current position. Prior to joining the Bank, she worked with Citibank, N.A. as Country Lead Human Resources Generalist/Senior Vice-President, prior to which she was Head of Human Resources for the Institutional Clients Group for almost two years. She has also worked with Citifinancial Corporation, the Consumer Finance Division of Citigroup, as Human Resources Head for four years. She also has HR experience in retail, distribution and manufacturing industries, having worked for California Clothing Inc. where she was Human Resources Head, International Marketing Corporation as Division Manager for Human Resources & Operations, Tricom Systems (Philippines), Inc. as 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 earned units in Masters in Psychology majoring in Organisational /Industrial Psychology at De La Salle University.

**Lalaine I. Bilaos**, Filipino, Senior Vice President, is the Head of the Local Corporate Banking Segment – Division II. Prior to occupying the position of Division Head on April 2011, she was holding the position of a Relationship Manager. She joined the bank in June 1992 as a Secretary for Corporate Planning. Six months thereafter, she moved to Credit Operations Department to handle a Credit Analyst role. By January 1994, she joined Corporate Banking Group and was assigned under Project Finance as a Project Analyst. She also had other roles in the said team as Marketing Assistant and Jr. Project Account Officer. She became an Account Officer in 2000 at the Corporate Division 1 of Corporate Banking Group in Ortigas. Before joining RCBC, she had stints with Dynamic Union of Consultants and Managers, Inc and American Home Assurance Co. as Credit and Collection Assistant and Billing Assistant respectively. She graduated from De La Salle University in Manila in 1989 with a degree in Bachelor of Arts major in Economics.

**Ma. Carmela S. Bolisay**, Filipino, Senior Vice President, is the Head of Management Services Division in Operations Group. Prior to being employed at RCBC, she was last employed from June 2016 to February 2017 as the Chief of Staff for the Chairman (Vice President on consultant status) of W Hydrocolloids Inc. of W Group. She also previously worked with the following firms and banks: Standard Chartered Bank where she handled roles such as Business Planning Manager/VP for the CEO, Country Manager for Service Excellence/VP, Business Project Director/VP, and Vice President for Product and Process Management in Cards & Personal Loans Service Quality; Security International Card Corporation as First Vice President for Consumer Services Group, Credit Risk Management Division, Member Services Division, Member Services and Collections Division, Mastercard Task Force Head, and Vice President/Assistant Vice President for Clubmember Services Division, Equitable Cardnetwork, Inc. as Senior Manager for Customer Service; Assistant Manager for Collections and Junior Collections Assistant. She graduated with a degree in Bachelor of Arts major in Psychology, minor in Education at the University of the Philippines in 1990. She took up Basic Management Program at Asian Institute of Management (AIM) in 1992.

**Jose Maria P. Borromeo**, Filipino, Senior Vice President, is the Head of Reserves and Liquidity Management Segment in Treasury Group. Prior to assuming this role, he was Head of Balance Sheet Management Segment from July 2018 to April 2019. He joined the bank in February 2016 and was initially assigned as Head of Central Funding Division. He was previously employed at Standard Chartered Bank as Head of Asset and Liability Management, Financial Markets Group. He had a stint with the Bank of the Philippine Islands where had the following roles: Head

of FX Swaps and Domestic Liquidity Department; Head of Product Development and Financial Markets Research Department; Head of Risk Management Department in Treasury Group, and Dealer for Financial Derivatives Division. He also had previous experience with Citytrust Banking Corporation where he worked as Head of Balance Sheet Management Unit. He started as a Management Associate Trainee in the said bank. Early in his professional career, he was connected with the Private Development Corporation of the Philippines as an Account Officer for Project Loans and as an Associate Economist for Economic and Corporate Research. He earned his undergraduate degree, Bachelor of Science in Economics from the University of the Philippines in 1988. He took up Masters in Business Administration in 1993 in the same university.

**Enrique C. Buenaflor**, Filipino, Senior Vice President, is the Head of Corporate Cash Management 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 Corporate Cash Management Services (2001 to 2004) and Product Manager (1999 to 2001) for ABN AMRO Bank. He also worked for Philippine Global Communications Corporation as Senior Manager for Corporate Planning (July 1999 to November 1999) and Capitol Wireless, Inc as Business Development Director/Marketing and Sales Manager (March 1997 to May 1999). He started his career in Citibank N.A. as Operations Staff in 1992 and then as Management Associate in 1996. Mr. Buenaflor earned his undergraduate degree, Bachelor of Science in Business Management from Ateneo de Manila University and finished his Masters in Business Management at Asian Institute of Management.

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

**Brigitte B. Capina**, Filipino, Senior Vice-President, is the Regional Sales Director of South Metro Manila. Prior to occupying this position, she was the Marketing and Sales Director of Makati Central Business District in 2013, the Regional Sales Manager of South Metro Manila in 2012, Regional Sales Manager of Corporate Headquarters in 2009 and Business Manager for various branches such as RCBC Plaza in 2005, Buendia in 2004 and Makati Avenue in 2003. She obtained her Bachelor of Science degree in Commerce majoring in Accounting from the University of San Agustin, Iloilo City and her Masters in Business Management from the University of the Philippines, Visayas.

**Claro Patricio L. Contreras**, Filipino, Senior Vice-President, is the Head of Remedial Management Division. Prior to joining RCBC, he was the AVP for Special Accounts Management Services Group at BPI (April 2000 to June 2000), AVP for Credit Mgmt. Services Group at FEBTC (January 1997 to March 2000), and Manager for Credit Management Services Group at FEBTC (October 1995 to December 1996). He completed his Bachelor of Science degree in Commerce majoring in Business Management from San Beda College.

**Antonio Manuel E Cruz, Jr.**, Filipino, Senior Vice President, is the Head of Chinese Banking Segment. Prior to being designated to this role, he was 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**, Filipino, Senior Vice-President, is the Bank Security Officer. He was also the Corporate Services Division Head prior to assuming his current position. Previously, Mr. Ermita worked for CTK Incorporated as Consultant, Solidbank as Security and Safety Department Head and UCPB as Security and Safety Department Head. He started his career in UCPB as Teller in 1983 before moving to Branch Marketing in 1985. Mr. Ermita earned his Bachelor of Science in Management from Ateneo de Manila University. He finished his Masters in Business Administration with specialization in Industrial Security Management from the Philippine Women's University.

**Benjamin E. Estacio**, 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.

**Jonathan Edwin F. Lumain**, 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.

**Jane N. Manago**, Filipino, 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 Officer-In-Charge and Marketing Head. Prior to joining the Bank, she worked with Citibank as Cash Product Manager for Global Transaction Services (September 1998 to January 1999), Account Manager (April to August 1998) and Head of Corporate Banking for Chinatown Branch (November 1996 to March 1998) and at Equitable Banking Corporation from May 1986 to October 1996, where her last appointment was the Head of the Research and Special Projects Unit. She obtained her Bachelor of Science degree in Commerce degree majoring in Business Administration and her Bachelor of Arts degree majoring in Behavioral Science from the University of Santo Tomas.

**Jose Jayson L. Mendoza**, Filipino, Senior Vice President, is the Provincial- Vis Min Division Head for SME Banking. He joined the Bank in 2008 as Lending Center Head for Small & Medium Enterprises 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**, Filipino, Senior Vice-President, is the Head of Consumer Lending Group of RCBC Savings Bank. Prior to his secondment to RCBC Savings Bank, he was the Division II Head of Global and Ecozone Segment from April 2011 to January 2016 and Relationship Manager for JES Division II from February 2002 to April 2011. He also assumed various positions in the branch from September 1987 to February 2002. Mr. Miral obtained his Bachelor of Arts major in Economics degree from the University of Sto. Tomas in 1986.

**Ma. Cecilia F. Natividad**, Senior Vice President, is the Head of the Marketing Group. Before joining RCBC, she served as Head of Marketing at Western Union Financial Services, Inc. She previously worked with other firms like Nestle Philippines Incorporated as Consumer Marketing Manager and at Ayala Life Assurance Incorporated as Sales Trainor, and at Amon Trading as Management Trainee. She graduated from the Ateneo de Manila University in 1995 with a Bachelor of Science degree in Management major in Legal Management.

**Evelyn Nolasco**, Filipino, Senior Vice-President, is the Head of the Asset Disposition Division. Before she joined the Bank, she was the Senior Vice-President and Treasury Head of the AGSB Group of Companies in 1995 and Manager

for Corporate Finance for SGV & Company from 1994 to 1995. She graduated from De La Salle University with a Bachelor of Science degree in Commerce majoring in International Marketing and obtained her Masters degree in Business Management from the Asian Institute of Management.

**Loida C. Papilla**, Filipino, Senior Vice-President, is the Asset Management Support Division Head. She joined RCBC in 2006 as Operations Support Division Head. She worked for various institutions in the following capacities : Assistant Vice-President / Head of Billing and Collections Section in PNB (April 2004 to February 2006), Assistant Vice-President/OIC in UCPB Securities Inc. (August 1999 to January 2004), Operations Finance Manager in Guoco Securities Inc. (January 1994 to August 1999), Media Consultant in the Office of the Senate President (October 1992 to December 1993), Research Director in Philippine Newsday (June 1989 to June 1992), Research Head in Business Star (June 1987 to June 1989) and Researcher in Business Day Corp. (November 1981 to June 1987). Ms. Papilla graduated from the University of the East in 1981 with a Bachelor of Science in Business Administration major in Accounting. She is also a Certified Public Accountant.

**Arsilito A. Pejo**, Filipino, Senior Vice-President, is the Regional Sales Director of Visayas Region. Prior to this, he was the Regional Sales Director of Eastern Visayas. 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**, Filipino, Senior Vice President, is the Regional Sales Director for the South Luzon Regional Office. Prior to assuming the role of Regional Sales Director in 2016, she was a District Sales Director and a District Sales Manager for Southeast Luzon District from 2014 to 2016 and 2008 to 2013 respectively. In between these roles, she was designated as Financial Center Head based in Lucena in 2013. She joined the bank in 1994 as Business Center Manager, a position which she held until 2008. Before she joined RCBC, she was connected with Philippine National Bank from 1983 to 1993. She handled various roles in the said bank which include the following - Audit Clerk, Statistician, Audit Examiner, Accountant, Cashier and Branch Manager. Her first banking experience was gained from Far East Bank where she worked as a Teller from 1980 to 1982. Outside the banking industry, she had engagements in other institutions as follows: as Regional Governor for the Philippine Chamber of Commerce and Industry (2009 to 2010), as President of Quezon - Lucena Chamber of Commerce and Industry (2007 to 2008) and as a Director/Minor stockholder of Moldedcraft Consulting Corporation. She obtained a Bachelor of Science in Business Administration major in Accounting at the University of the East in 1980.

**Nancy J. Quiogue**, Filipino, Senior Vice-President, is the Regional Service Head of North Manila. Prior to assuming her current position, she was the Regional Service Head for North Metro Manila and Central Metro Manila. She was the Regional Service Head for Metro Manila from April 2010 to December 2014 and District Service Head for Metro Manila from May 2004 to April 2010. She also held various positions at the Bank since 1991. Ms. Quiogue graduated from the Philippine School of Business Administration with a Bachelor of Science degree in Business Administration majoring in Accounting.

**Elsie S. Ramos**, Filipino, Senior Vice-President, is the Legal Affairs Division Head. She joined the Bank in 2006 and assumed the position of Litigation Department Head. Prior to joining RCBC, she was the Corporate Lawyer and Head of Legal and Corporate Affairs Division for Empire East/Land Holdings (2004 to 2006), Senior Associate and Lawyer-In-Charge of the Docket/Records Section for Ponce Enrile Reyes and Manalastas (2003 to 2004), Senior Associate for Martinez and Mendoza (2001 to 2002), Senior/Junior Associate for Ponce Enrile Reyes and Manalastas (1996 to 2000) and Legal Consultant for Companero Y Companera (1997 to 1998). She held various positions in the University of the Philippines, Department of History such as Assistant Professor (1994 to 1998), Assistant to the Chairman (1992 to 1993) and Instructor (1988 to 1994). She was also a Part-Time Instructor at the St. Scholastica's College, Manila from 1987 to 1989. She obtained her Bachelor of Arts and Master of Arts degree in History from the University of the Philippines, Diliman. She also finished her Bachelor of Law in the same university.

**Ismael S. Reyes**, Filipino, 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**, Filipino, Senior Vice-President, is the Head of Treasury Sales and Digital Service Delivery Segment. Prior to being designated into this role, he was Head of Commercial Trading and Sales Segment until the reorganization in Treasury in May 2019. Previously, he was First Vice President of Global Markets for Australian & New Zealand Banking Group (March 2009 to January 2014), Vice President / Head of Capital Markets for Banco De Oro (October 2006 to March 2009), Assistant Vice President /Debt and Interest Rate Trader for Citibank, Singapore (January 2006 to October 2006) and Assistant Vice President/Bonds Trader for Citibank, Manila (January 2002 to December 2005). He also worked for Equitable PCIBank from July 1999 to December 2001 and PCIBank from May 1996 to July 1999 and held the following positions: Senior Manager/Head of Capital Markets Desk (July 2000 to December 2001), Manager /Global Fixed Income Proprietary Trader (July 1999 to July 2000), Assistant Manager / Fixed Income Proprietary Bond Trader (July 1997 to July 1999) and Proprietary Bond Trader (May 1996 to July 1997). Mr. Reyes started his banking career when he joined Bank of the Philippine Islands in 1993 as Position Analyst. He completed his Bachelor of Science in Tourism Management at the University of the Philippines in 1993.

**Ma. Rosanna M. Rodrigo**, 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**, Filipino, Senior Vice-President, is the Investment Services Division Head. He joined RCBC in 2001 as Portfolio Management Section Head before assuming the Investment Services Department Head position in 2008. He also worked for Metropolitan Bank and Trust Company (2000 to 2001), Solidbank Corporation (1999 to 2000). Phinma, Inc. (1991 to 1999) and SGV & Co. (1990 to 1991). Mr. Santos obtained his Bachelor of Science degree in Management of Financial Institutions and Bachelor of Arts degree in Asian Studies from the De La Salle University.

**Libertine R. Selirio**, 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 Dasmariñas 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 to 1997), Financial Analysis and Evaluation Section Head (1991 to 1993), Credit Analyst (1989 to 1991) and EDP Teller (1987 to 1989). Ms. Selirio earned her Bachelor of Science in Commerce major in Accounting from St. Scholastica's College in 1986.

**Johan C. So**, Filipino, Senior Vice-President, is the Head of Division 1 in Local Corporate Banking Segment. Prior to assuming current position, he was the Head of Kaloocan Division from July 2013 to January 2014 and Head of Chinese Banking Division III from June 2008 to June 2013. From August 2005 to May 2008, he worked for Philippine Bank of Communications in which the last position he assumed was as Vice-President/Unit Head of Corporate Banking Group 5. He also worked for Standard Chartered Bank from May 1999 to May 2002, T.A. Bank of the Philippines, Inc. from February 1997 to May 1999 and China Banking Corporation from 1993 to 1997. Mr. So graduated from De La Salle University in 1992 with a degree in Bachelor of Science in Applied Economics and Bachelor of Science in Commerce major in Marketing Management. He obtained his Masters degree in Business Administration from the Ateneo Graduate School of Business in 1999.

**Elvira D. Soriano**, Filipino, Senior Vice President, is the Segment Head of Head Office Audit in Internal Audit Group. Prior to assuming this role in September 2017, she was an Audit Cluster Head since January 2008. She previously worked with other banks namely: United Coconut Planters Bank where she performed roles in Audit and

Credit Review; PDCP Bank where she was assigned with roles such as Account Officer, Project Analyst, Accountant and Audit Assistant. She earned a Bachelor of Science degree in Commerce at the University of Bohol in 1986.

**Cecilia E. Tabuena**, Filipino, Senior Vice President, is the Head of Local Corporate Banking Segment. She was previously connected with CTBC Bank (Philippines) Corporation as Officer-in-Charge /Senior Vice President of the Institutional Banking Group. Prior to assuming this role, she was Deputy Head of Origination & Structuring of the same group. She previously worked in other banks in various roles as follows: Security Bank Corporation as Head of Fixed Income; Citigroup Philippines as Head of Debt Capital Markets and Senior Transactor; Citicorp Securities International R.P. Inc as Equities Research Analyst; The Long-Term Credit Bank of Japan, Los Angeles California Agency as Associate for Corporate Finance; and All Asia Capital and Trust Company as Money Market Trader. She obtained her Masters in Business Administration degree in Finance at Peter F. Drucker Graduate School of Management at Claremont Graduate University (California, USA) in 1994. Her undergraduate degrees were Bachelor of Science in Commerce major in Marketing Management and Bachelor of Arts major in Psychology which she both finished at De La Salle University in 1990.

**Ma. Angela V. Tinio**, Filipino, Senior Vice-President, is the Head of Small Medium Enterprises Banking Group (previously a Segment under the National Corporate Banking Group). She has been with the Bank since 2000, holding various positions in National Corporate Banking as Segment Head for Commercial Small and Medium Enterprise Banking (October 2013 to June 2019) and in Corporate Banking, as VisMin Lending Region Head (December 2010 to September 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 Masters degree in Business Administration from the De La Salle University.

**Gianni Franco D. Tirado**, 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 Masters in Education major in Special Education at the Holy Cross of Davao College in 2009.

**Juan Gabriel R. Tomas IV**, Filipino, Senior Vice President, is the Head of the Customer Service Support Segment in, Operations Group. His experiences include serving as Head of Capital Markets and Custody, Operations Group, Citibank N. A., Head of Treasury Services Unit, Citibank N. A., Production Officer for Treasury Services Unit, Citibank, Consultant for Controllers' Department, Deutsche Bank AG Manila, and Consultant, for Process Competency Group at 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 Masters in Business Management major in Finance in 2001 at the Asian Institute of Management.

**Raul Martin J. Uson**, Filipino, Senior Vice President, is the Segment Head for Branch Services Support Segment. Prior to joining RCBC, he was previously connected with PBCOM as Business Centre Operations and Oversight Head. He also assumed the following roles at Citibank N.A. prior to joining PBCOM 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 Reconciliation Unit Head (1988 to 1991), Cash Officer for Greenhills 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.

**Emmanuel Mari K. Valdes**, Filipino, Senior Vice President, is the Head of Deposit, Product and Promotions Division in Retail Banking Group. Prior to assuming this role, he was the Head of Retail Financial Products Division with the rank of First Vice President from October 2013 to June 2017. He joined the RCBC in 2010 as Head of Cash Management Services Department and was assigned in 2013 as Financial Center Head under Retail Banking Group.

He started his banking career in January 1996 when he joined CityTrust Banking Corporation as a Sales Officer in Retail Banking Branch. He then transferred to Bank of Southeast Asia in 1997 where he handled the same role. He had previous stints thereafter with other banks such as Union Bank of the Philippines where he was Head of Sales Department for Cash Management Services and Standard Chartered where he was a Sales Head also. He graduated from De La Salle University in 1995 with a degree in Bachelor of Science in Commerce major in Business Management.

**Paula Fritzie C. Zamora**, Filipino, Senior Vice President, is the Head of Financial Institutions Management Segment in Treasury Group, a role which she has been handling since June 2012. Prior to assuming this role, she was the Head of Derivatives Department and Head of Financial Engineering Department. She had previous work experience which she gained from other firms like Tokio Marine Malayan Insurance Co. where she was a Finance Officer for Cash Department and Far East Bank & Trust Company where she was employed as Treasury Trader. She graduated from the Ateneo De Manila University in 1992 with a degree in Bachelor of Science in Management.

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 and Mr. Jamal Ahmad who is a citizen of Canada.

## Employees

As of 31 December 2019, the Bank (excluding its subsidiaries) had 6,112 permanent employees, of which 61%, were engaged in a professional managerial capacity and classified as "officers." As of 31 December 2019, approximately 52.91 % of the Bank's employees (excluding its subsidiaries) are employed at the head office and 47.09 % are employed at its branches.

The following table presents the number of employees by category as of the dates indicated:

	As of 31 December		
	2017	2018	2019
Staff	1,778	1,757	2,384
Officers	2,677	2,759	3,728
<b>Total</b>	<b>4,455</b>	<b>4,516</b>	<b>6,112</b>

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 year ended 31 December 2019 was ₱6.11 billion, and for the year ended 31 December 2018, the aggregate compensation paid to employees was ₱5.93 billion.

## Principal shareholders

The Bank is a member of YGC. As of 31 December 2019, the Yuchengco family, directly or indirectly, primarily through PMMIC owned 41.66% of the Bank's issued and outstanding shares, while other members of YGC owned or controlled an additional 207,205,966 shares, or approximately 10.71% 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 December 2019, the Bank had 1,935,628,896 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 December 2019:

	No. of shares	% of Total
Pan Malayan Management and Investment Corporation (Filipino)	806,431,473	41.66
Cathay Life Insurance Corporation (Non-Filipino)	452,018,582	23.35
International Finance Corporation (IFC) & IFC Capitalization (Equity) Fund, L.P. (Non-Filipino)	107,875,642	5.57
RCBC TIG As Trustee of TA#75077-8 FAO RCBC Retirement Plan (Filipino)	51,754,520	2.67
Sybase Equity Investments Corporation (Filipino)	71,233,262	3.68

## RELATED PARTY TRANSACTIONS

The Bank is a member of the YGC. The Yuchengco family, primarily PMMIC, is the largest shareholder and as of 31 December 2019 owned 806,431,473 shares, or approximately 41.66 % of the Bank's issued and outstanding shares, while other members of YGC owned or controlled an additional 207,205,966 shares, or approximately 10.71% 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 includes members of the Advisory Board, consultants of the. 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 shall be interpreted broadly to cover not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the Bank and its stakeholders.

Transactions that were entered into with an unrelated party that subsequently becomes related party may be excluded from the limits and approval process. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall be subject the RPT to the requirements of the Bank's Policy on RPT.

By policy, transactions with related parties involving amounts of at least ten million Pesos (₱10,000,000) 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.

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 year ended 31 December 2019, the Board of Directors approved loan transactions and other credit accommodations with related parties amounting to ₱16.64 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 ₱448 million or 0.10% of total loan portfolio of the Bank as of 31 December 2019.

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.

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 has a service agreement with RCBC Forex Brokers Corporation (RCBC Forex) for in-sourced services, rendered by the following business units: 1) business and operational risk, 2) compliance, 3) internal audit, 4) information technology, and 5) human resources. The services shall be limited to: compliance with relevant laws, rules and regulations, market, liquidity, and operational risk management, internal audit, information technology, review of salary and processing of payroll on a bi-monthly basis, and implementation of exclusive succession planning, human resources information system and database administration and organization of training programs.
- The Bank has a service agreement with RCBC Forex and RSB for the referral of money service business customers to RCBC Forex, to facilitate the purchase and/or sale of foreign currencies. The services to be rendered are relative to account opening and compliance with customer identification regulatory requirements.

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 0.10%, 0.13%, and 0.15% of the Bank's loan portfolio as of 31 December 2019, 31 December 2018, and 31 December 2017, 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.

## PHILIPPINE BANKING INDUSTRY

*The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The cited regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.*

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks, and subsidiaries and branches of foreign banks.

Based on BSP data as of 30 September 2019, the commercial banking sector, comprising universal and commercial banks, consisted of 46 banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As at 30 September 2019, there were 50 thrift banks.

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 30 September 2019, there were 450 rural and cooperative banks.

During the past decade, the Philippine banking industry has been marked by two major trends – the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, by virtue of RA 7721 (An Act Liberalizing The Entry And Scope of Operations of Foreign Banks in the Philippines and for Other Purposes), allowing foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority.

In 2014, Republic Act No. 10641 (An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose RA 7721) was enacted, granting power to the Monetary Board to authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Any foreign bank which invested up to 60% of the voting stock of a domestic bank prior to the effectivity of RA 10641, may further acquire voting shares in such domestic bank to the extent necessary for it to own 100% of the voting stock thereof.

Pursuant to RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014, 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 one hundred percent (100%) of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to one hundred percent (100%) of

the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-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. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. The BSP has since offered various incentives to merging or consolidating banks, the most recent of which is Memorandum No. M-2016-023 dated 21 December 2016, providing the following list of sample incentives:

- a. Revaluation of premises, improvements and equipment;
- b. Staggered booking of unbooked valuation reserves over a maximum period of 5 years;
- c. Temporary relief from compliance with CAR and/or maximum period for amortization of goodwill;
- d. Conversion/upgrading of head offices, branches, and other offices;
- e. Condonation of liquidated damages/penalties on loan arrearages to the BSP;
- f. Relocation of branches/offices within 1 year in cases of duplication of branches in certain areas;
- g. Installment payment of outstanding penalties in legal reserve deficiencies and interest on overdrafts with the BSP over a 1-year period;
- h. Reasonable period to comply with real estate loan limits;
- i. Restructuring past due obligations with BSP over a 10-year period;
- j. Concurrent officership between a merged or consolidated bank or financial institution (FI) and another bank/FI, and concurrent directorship between banks; and
- k. Continued effectivity of right or privilege under a rehabilitation program or any special authority granted by the Monetary Board.

Based on BSP data, since the first package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies show that they were not enough to pose a threat to the overall competition levels in the industry since market share is still well dispersed among the remaining players.

The following table sets out a comparison, based on consolidated quarterly reports filed with the Philippine SEC, of the five leading private domestic commercial banks in the Philippines as at 31 December 2019:

Name	Market Capitalization <sup>1</sup>	Total Capital <sup>2</sup>	Total Resources <sup>2</sup>	Loans and Receivables-net <sup>2</sup>	Customer deposits <sup>2</sup>	No. of Branches <sup>3</sup>
			(in ₱ millions)			
BDO Unibank, Inc. ....	692,238	371,729	3,145,158	2,164,814	2,484,958	1,434
Metropolitan Bank & Trust Co. ....	298,179	310,100	2,471,446	1,490,614	1,715,129	957
Bank of the Philippine Islands .....	396,169	268,704	2,188,626	1,486,586	1,697,300	1,167
Philippine National Bank.....	52,639	147,100	1,131,467	633,609	825,292	715
China Banking Corp. ....	67,282	92,793	962,236	579,609	776,405	631

Notes:

1 Market Capitalization as at 31 December 2019.

2 Financial data taken from each bank's respective financial statements as at 31 December 2019. Includes interests in subsidiaries and allied undertakings.

3 Number of branches was provided by each of the respective banks as at 31 December 2019.

According to a quarterly Senior Bank Loan Officers' Survey conducted by BSP, local banks implemented stricter credit standards on commercial real estate loans in the first quarter of 2019. The net tightening of overall credit standards for commercial real estate loans was attributed by the banks to stricter oversight of banks' real estate exposure along with banks' reduced tolerance for risk. In particular, banks reported wider loan margins, reduced credit line sizes, stricter collateral requirements and loan covenants, shortened loan maturities, and increased use of interest rate floors.<sup>1</sup>

<sup>1</sup> <http://www.bsp.gov.ph/publications/media.asp?id=5006&yr=2019>

The BSP issued Circular No. 839 Series of 2014 dated 27 June 2014 which adopts a prudential real estate stress test (REST) limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6% of Common Equity Tier 1 (CET1) capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits which shall be complied with at all times are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

The BSP issued Circular No. 989 dated 4 January , 2018 which imposed the Guidelines on the Conduct of Stress Testing Exercises. The BSP issued the stress testing guidelines as part of its continuing initiatives to further strengthen risk governance and contribute to the sustained safety and soundness of the Philippine banking industry. Circular No. 989 provides that the bank's 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 D-SIBs, in developing recovery plans. Banks are expected to employ a combination of different approaches for stress testing. Methodologies may range from simple sensitivity analysis to the more complex tools, such as scenario analysis and reverse stress testing. The guidelines are applicable to all types of banks on both a standalone and consolidated basis. Banks that are part of group structures should conduct stress testing exercises on a consolidated basis or at the parent bank's level, covering all institutions considered as material entities in the banking group. The BSP has provided banks a period of two years from the effectivity date of Circular No. 989 to progress from their existing stress testing practices to the standards expected under Circular No. 989.

On 29 October 2014, the BSP issued Circular No. 854 which increased the minimum capital requirement for all bank categories, namely, universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
<b>Universal Banks</b>	₱ 4.95 billion**	
Head Office only		₱ 3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
<b>Commercial Banks</b>	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
<b>Thrift Banks</b>		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
<b>Rural and Cooperative Banks</b>		
Head Office in:		
Metro Manila	100 million**	

<b>Bank Category/Network Size</b>	<b>Existing Minimum Capitalization</b>	<b>Reviewed Minimum Capitalization</b>
Cebu and Davao cities	50 million**	
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		
Up to 10 branches*		20 million
11 to 50 branches*		30 million
More than 50 branches*		40 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		80 million
Head Office only		
Up to 10 branches*		10 million
11 to 50 branches*		15 million
More than 50 branches*		20 million
		40 million
* Inclusive of Head Office		
** With no distinction for network size		



## **BANKING REGULATIONS AND SUPERVISION**

*The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.*

### **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 MORB is the principal source of rules and regulations that must be complied with by banks in the Philippines. The MORB 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 MORB 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 MORB, 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. Net worth is defined as the total unimpaired paid-in capital

including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by the BSP.

## **REGULATIONS**

The MORB 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 MORB 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 granted by the bank; (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 BSP; (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 program.

### **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, and on 6 December 2018, Circular No. 1024, which prescribed the implementing guidelines on the risk-based capital adequacy framework and the adoption of a countercyclical capital buffer, 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% and a countercyclical capital buffer of 0%, subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, but not to exceed 2.5%, shall also apply. Any increase to the countercyclical buffer shall have a preannouncement period of twelve months, while any reductions on such buffer are to take effect immediately.

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 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 HLA. The HLA requirement for D-SIBs is to be met with CET1 capital and is in addition to the capital conservation buffer requirement and the countercyclical capital buffer under the relevant BSP issuances, including BSP Circular No. 1051, issued in 27 September 2019 by the BSP.

D-SIBs shall be initially allocated into two buckets with different level of HLA requirements ranging from 1.5% to 2% 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. Under BSP Circular No. 1024, the BSP provided for sample total CET1 capital requirements for D-SIBs when the countercyclical capital buffer at 0% and at 2.5%. It further provided for restrictions on distributions, dependent on bucket, and countercyclical capital buffer rate.

Under BSP Circular No. 1051, an empty top bucket with HLA requirement of 2.5% of risk-weighted assets must be maintained on top of the minimum HLA requirements per bucket. The differentiated HLA requirement for D-SIBs

slotted under the higher-populated bucket is to be based on the ranking of a bank's overall systemic importance, determined through the use of the indicator-based measurement approach.

The 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 22 January 2018, however, the BSP issued Circular No. 990, which extended the monitoring period up to 30 June 2018. By 1 July 2018, the leverage ratio became 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 commenced on 1 January 2018 as well. The prescribed minimum was set at 90% for 2018, and rose to the minimum required level of 100% on 1 January 2019.

On 6 June 2018, the BSP issued Circular No. 1007, which imposed a net stable funding ratio ("NSFR") framework on all universal and commercial banks, including their subsidiary banks and quasi-banks, on both a solo and consolidated basis. The NSFR framework seeks to limit overreliance on short-term wholesale funding and to promote enhanced assessment of funding risk across all on- and off- balance sheet accounts. Said covered entities are required to maintain an NSFR, defined as available stable funding divided by required stable funding, of at least 100% at all times. This must be reported in a single currency. Actual implementation began on 1 January 2019.

On 6 December 2018, the BSP issued Circular No. 1024 adopting Basel III CCB. A CCB sets as percent of risk-weighted assets shall be required of banks, comprised of CET1 capital. The CCB is meant to ensure that banking sector capital requirements take into account of the macrofinancial environment in which banks operate. The primary aim of the countercyclical capital buffer regime is to use a buffer of capital to achieve the broader macroprudential goal of protecting the banking sector from the build-up of systemic vulnerabilities.

On 15 March 2019, BSP issued Circular No. 1035 to introduce certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio. The BSP also issued Circular No. 1034, further extending the observation period for subsidiary banks/quasi-banks of universal and commercial banks from 1 July 2018 to 31 December 2019 before the implementation of the minimum 100% NSFR starting 1 January 2020.

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.

Under BSP Circular No. 1041, 1054, and 1056 (2019) universal and commercial banks (including the Bank) are required to maintain regular reserves of (a) 14.0% 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 (c) 0% against deposit substitutes evidenced by repo agreements and inter-bank call loans under Sec. 343 of the MORB), and 3.0% against bonds.

On 15 October 2019, the Monetary Board approved the reduction in the reserve requirement rate for bonds issued by banks and QBs from 6.0% to 3.0%. The reduced reserve requirement ratio was implemented in furtherance of the BSP’s commitment to contribute to the deepening of the local debt market. It also intends to incentivize both banks and QBs to tap the domestic bond market as part of their liquidity management.

The new reserve requirement ratio is set to take effect on the reserve week beginning 1 November 2019; hence all issuances of bonds by banks and QBs beginning 1 November 2019 will be covered by the reduced reserve requirement rate.

Liquidity reserves are no longer required pursuant to BSP Circular No. 753 issued in 2012.

On 24 October 2019, the Monetary Board announced that it was reducing the reserve requirement ratio by 100 basis points (or one percentage point) for universal/commercial and thrift banks. The reserve requirement reduction is in line with the BSP’s broad financial sector reform agenda to promote a more efficient financial system by lowering financial intermediation costs. The adjustment in reserve requirement ratios is also aimed at ensuring sufficient domestic liquidity in support of economic activity. The reduction will be effective on the first day of the first reserve week of December 2019. The announcement was followed by the issuance of BSP Circular No. 1063 on 3 December 2019, which stated that the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks effective reserve week starting 6 December 2019 shall be 14% for universal banks and commercial banks.

## **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 MORB, 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.

### **Trust Regulation**

The MORB 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. In 2018, BSP Circular No. 996 was issued providing that, effective 1 January 2019, the liquid asset cover requirement for FCDU/EFCDU liabilities for universal, commercial, thrift, rural, and cooperative banks shall be at 0%.

### **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 Program”, 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.

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.

### **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 Subsections X341.6 and X341.7 of 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 Reform Credit 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. Non-compliance is subject to administrative sanctions and penalties imposed by the BSP.

### **Qualifications of Directors and Officers**

On 22 August 2017, BSP issued Circular No. 969, providing for revisions to guidelines in strengthening corporate governance in BSP-supervised financial institutions. The BSP, through such circular, aimed to align its existing regulations with the Code of Corporate Governance for Publicly-listed Companies issued by the SEC. Pursuant to such Circular, directors have the burden of proving that they possess all the minimum qualifications and none of the disqualifications listed in the MORB. Such director must submit proof to the BSP of his qualification. An elected director must be fit and proper for the position, taking into consideration his integrity/probity, physical/mental fitness, educational/financial literacy/training, and other competencies relevant to the job. Each director must also have attended a seminar on corporate governance, subject to certain exemptions. Members of the board of directors may not be appointed as corporate secretary or chief compliance officer of the institution.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court for offenses involving dishonesty, such as but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, and others; (b) persons who have been convicted by final judgment of a court sentencing them to serve a maximum term of imprisonment of more than six (6) years; (c) persons who have been convicted by final judgement of the court for violation of banking laws, rules, and regulations; (d) persons who have been judicially declared insolvent, spendthrift, or incapacitated to contract; (e) directors, officers, or employees of closed banks who were found to be culpable for such institution’s closure as determined by the Monetary Board; (f) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (g) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

BSP Circular No. 969 further provided for the composition of the Board of Directors. At least one-third but not less than 2 members of the Board must be independent directors, rounded up to the nearest whole number. Non-Filipino citizens are allowed to become members of the Board to the extent of the foreign participation in the equity of the institution.

### **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:

<b>Mode of Payment</b>	<b>Minimum Number of Instalments in Arrears</b>
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 instalment 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.

### **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:

<b>Bank Category</b>	<b>Minimum Capital (in billions)</b>
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 billion and thrift banks with capital of at least ₱3 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.

### **The Philippine Competition Act**

Rep. Act No. 10667, or the Philippine Competition Act (“PCA”) was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a Philippine Competition Commission (the “PCC”), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitions, (b) mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition, and (c) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

On 3 June 2016, the PCC issued the implementing rules and regulations of the PCA (“IRR”). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed

joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion.

On 10 March 2018, the PCC issued Memorandum Circular No. 1-001 (“MC No. 18-001”) to amend Section 3, Rule 4 of the IRR to increase the initial thresholds. Under MC No. 18-001, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5 billion; and (b) the value of the transaction exceeds ₱2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2 billion. As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on March 1st of every succeeding year, using as index the Philippine Statistics Authority’s official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

PCC Advisory 2019-001 further adjusted the thresholds such that effective 1 March 2019, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion. On 11 February 2020, the PCC issued Commission Resolution No. 02-2020, further adjusting the merger or acquisition notification thresholds. Effective 1 March 2020, parties to a merger or acquisition are required to provide notification when (a) the size of party exceeds ₱6 billion and (b) the value of the transaction, including joint venture transactions, as determined in the IRR, exceeds ₱2.4 billion.

Violations of the PCA and the IRR have severe consequences. Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and wilfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (“Rules of Procedure”) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures (the “Merger Rules”) which provides the procedure for the review or investigation of mergers and acquisition pursuant to the IRR. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from the signing of definitive agreements relating to the notifiable merger.

### **Data Privacy Act**

Rep. Act No. 10173, otherwise known as the Data Privacy Act of 2012 (“Data Privacy Act”), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and

Communications System (“ICT”), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes. It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

### **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. . However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSP-supervised financial institutions are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the MORB.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services (“EPFS”). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires the prior approval of the BSP to offer EPFS and certain reportorial requirements must be submitted to the BSP.

### **Anti-Money Laundering Law**

The 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 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 ₱4.0 million to ₱500,000; (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 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, willfully 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 willful 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 proprio* 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 ₱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, as against the usual ₱500,000, 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.

On 20 April 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines (the "Guidelines"). The Guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a "non-compliant" or "poor" Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism ("AML/CFT") Strategy. The Guidelines are addressed to all participating government agencies and other entities. The Mutual Evaluation is a government-wide concern as what will be assessed is the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime. The entire Mutual Evaluation process spans two (2) years, and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering ("APG"), pursuant to the APG's membership rules.

On 27 November 2018, the 2018 Implementing Rules and Regulations of the AMLA took effect. This incorporated the amendments under Republic Act No. 10972, which included casinos as covered persons. However, implementation by casinos of AMLA will continue to be governed by the existing Casino Implementing Rules and Regulations. These implementing rules and regulations feature new rules on the AMLC's coordination with law enforcement agencies, beneficial ownership, customer due diligence, and national risk management and assessment, among others. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFs of the guidelines issued by the AMLC on digitization of customer records and identification of beneficial owners. On 29 January 2020, the AMLC issued AMLC Regulatory Issuance ("ARI") A, B, and C No. Series of 2020, which amends certain provisions of the 2018 Implementing Rules and Regulations of Republic Act No. 9160, as amended. The ARI added provisions on immediate family members and close associates of politically-exposed persons ("PEPs"), and expanded the definition of a customer or client to include juridical persons.

### **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 MORB, 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. This was further strengthened through the issuance of BSP Circular No. 969. 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 MORB, a universal or commercial bank which is part of a conglomerate shall constitute a Related Party Transactions Committee ("RPT Committee"), composed of at least three members of the Board of Directors, two of whom must be independent directors, including the chairperson. The committee may not contain non-executive directors, and independent directors must always comprise a majority of the Committee. The RPT Committee has the duty to ensure that all related parties are continuously identified, related party transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice-versa) are captured. It is also responsible for evaluating all material related party transactions to ensure that these are not undertaken on more favorable economic terms, and for ensuring that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the institution's related party transaction exposures. The RPT Committee must also prepare a report to the board on a regular basis, on the status and aggregate exposures to each related party, as well as to all related parties. Lastly, they are tasked with overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting related party transactions, including the periodic review of related party transaction policies and procedures.

On 26 November 2019, the BSP issued Circular No. 1062, which states that an issuing bank, including its related parties, except for its trust department or related trust entities, cannot be a holder of the long-term negotiable certificates of time deposit ("LTNCTD") issued by the same bank. The underwriter or arranger that is a related party of the issuing bank may be a holder of the LTNCTDs, provided that it is part of the underwriting agreement. The issuing bank must also provide the registry bank with an updated list of all related parties. In addition, a universal bank or a commercial bank that is a related party of the issuing bank or quasi-bank, may serve as the underwriter/arranger of the issuance, subject to the following conditions: (a) that there are other third party underwriters/arrangers that are not related in any matter to the issuing bank/quasi-bank; (b) that the objective conduct of the due diligence review is not undermined; (c) that the appropriate safeguards and controls for related party transactions are instituted to prevent conflict of interest on the said arrangement. BSP Circular No. 1062 also provides that issuing banks or quasi-banks, including its related parties, except for its trust department or related trust entities, are prohibited from holding or acting as market makers of the bank's or quasi-bank's listed/traded bonds or commercial papers. The underwriter/arranger that is a related party of the issuing bank/quasi-bank may be a holder of the bonds or commercial papers, provided that this is part of the underwriting agreement. The registry bank must

likewise be a third party with no subsidiary/affiliate relationship with the issuing bank/quasi-bank, and which is not related to the issuing bank/quasi-bank in any manner that would undermine its independence.

### **Islamic Banking Law**

On 22 August 2019, President Rodrigo R. Duterte signed into law Republic Act No. 11439, or “An Act Providing for the Regulation and Organization of Islamic Banks” (“Rep. Act No. 11439”). Under Rep. Act No. 11439, the government recognized the vital role of Islamic banking and finance in creating opportunities for greater financial inclusion especially for the underserved Muslim population, in expanding the funding base for small and medium-sized enterprises as well as large government infrastructure through financial arrangements with risk sharing as their core element, and in contributing to financial stability through the use of financial contracts and services that are founded on risk sharing rather than speculation in compliance with Shari’ah principles.

Rep. Act No. 11439 authorized the establishment of Islamic banks and authorized conventional banks to engage in Islamic banking arrangements, including structures and transactions, through a designated Islamic banking unit within the bank subject to segregation of such banking units (“Islamic banks”). In addition to traditional banking powers and other banking powers that are compliant with Shari’ah principles, Islamic banks may perform the following services: (i) accept drafts and issue letters of credit or letters of guarantee, negotiate notes and bills of exchange and other evidence of indebtedness; provided, that such financial instruments are in accordance with the principles of Shari’ah; (ii) act as collection agent insofar as payment orders, bills of exchange or other commercial documents covering Shari’ah compliant transactions; (iii) provide Shari’ah compliant financing contracts and structures; and (iv) undertake various investment in all transactions allowed by Shari’ah principles. Islamic banks may also issue investment participation certificates, sukuk, and other Shari’ah compliant funding instruments to be used by the Islamic banks in its operations or capital needs. Islamic banks may also carry out financing and joint investment operations by way of mudarabah partnership, musharakah joint venture or by decreasing participation, murabahah purchasing on a cost-plus financing arrangement, lease (ijara) arrangements, construction and manufacture (istisna’a) arrangements, and other Shari’ah compliant contracts and structures, and to invest funds directly in various projects or through the use of funds whose owners desire to invest jointly with other resources available to the Islamic bank on a joint mudarabah basis in accordance with the foregoing arrangements, contracts and structures.

On 27 December 2019, the BIR issued Circular Nos. 1069 and 1070, which respectively provide the Guidelines on the Establishment of Islamic banks and Islamic banking units and the Shari’ah Governance Framework for Islamic banks and Islamic banking units.

### **National Payment Systems Act**

On 30 October 2018, Congress enacted Republic Act No. 11127, or “An Act Providing for the Regulation and Supervision of Payment Systems” (“Rep. Act No. 11127”). Rep. Act No. 11127 seeks to regulate payment systems, recognizing that they are crucial parts of the financial infrastructure of the country. The law defines payment systems as the set of payment instructions, processes, procedures, and participants that ensures the circulation of money or movement of funds. Meanwhile, the same law defines operators as persons who provide clearing or settlement services in a payment system, or define, prescribe, design, control, or maintain the operational framework of the payment system.

Under Rep. Act No. 11127, all operators of payment systems must register with the BSP. Furthermore, the SEC can no longer register the articles of incorporation of any operator of a designated payment system, or any amendment thereto, or otherwise issue to an operator a license to do business in the Philippines, unless accompanied by a certificate of authority from the Monetary Board, under its seal. The SEC shall also not register the by-laws of an operator of a designated payment system, or any amendment thereto, unless accompanied by a certificate of authority from the BSP. The law also grants the BSP the power to designate a new payment system if it determines that the existing payment system is posing or has the potential to pose a systemic risk or the designation is necessary to protect the public interest.

On 9 September 2019, the BSP issued BSP Circular No. 1049 which implements the provisions of Rep. Act No. 11127. It provides that banks which act as payment systems operators must register with the BSP through notification; it will not have to apply or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, and provided the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068, issued on 26 December

2019, extended the deadline for registration of existing payment systems operations from 1 October 2019, as originally stated in Circular No. 1049, to 1 April 2020.

### **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. 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; 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. 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.

On 9 August 2018, the BSP issued additional requirements for the issuance by banks of bonds and commercial papers. Circular No. 1010 provides that a bank may issue bonds and/or commercial papers without prior BSP approval, provided that the following conditions are met:

- (1) The bank must have a CAMELS composite rating of at least "3" and a "Management" rating of not lower than "3".
- (2) The bank has no major supervisory concerns in governance, risk management systems, and internal controls and compliance system;
- (3) The bank/QB has complied with directives and/or is not subject of specific directives and/or enforcement actions by the BSP; and

- (4) The bonds issued are enrolled and/or traded in a market which is organized in accordance with the SEC rules and regulations.

Further, the issuing bank, including its subsidiaries, affiliates, and the wholly or majority-owned or controlled entities of such subsidiaries and affiliates, except for its trust departments or related trust entities, is prohibited from holding or acting as a market maker of the bank's listed/traded bonds or commercial papers. Likewise, the registry bank, including the underwriter/arranger of the issuance, shall be a third party with no subsidiary/affiliate relationship with the issuing bank and which is not related to the issuing bank in any manner that would undermine its independence.

On 14 August 2018, the BSP issued Circular No. 1011 which provides guidelines on the adoption of PFRS 9. The Circular provides that where there are differences between the BSP regulation and PFRS 9, as when more than one option is allowed or certain limits are prescribed, then the option or limit prescribed by the BSP should be adopted. The circular further provides that with respect to the preparation of prudential reports, banks should adopt in all respect the PFRS, except in the following cases:

- (1) in preparing consolidated financial statements, only investments in financial allied subsidiaries except insurance subsidiaries shall be consolidated with the financial statements of the parent bank on a line-by-line basis, while insurance and non-financial allied subsidiaries shall be accounted for using the equity method. Investments in financial/non-financial allied/non-allied associates and joint ventures shall be accounted for using the equity method in accordance with the provisions of PAS 28.

In preparing solo/separate financial statements, investments in financial/nonfinancial allied/non-allied subsidiaries/associates, including insurance subsidiaries/associates, shall be accounted for using the equity method as described in PAS 28.

- (2) banks shall recognize adequate and timely allowance for credit losses at all times. In this respect, banks shall adopt the principles provided under the enhanced standards on credit risk management in measuring credit losses in the BSP Manual.

On 31 August 2018, the SEC issued Memorandum Circular No. 12 series of 2018, establishing guidelines on the issuance of green bonds in the Philippines under the ASEAN Green Bonds Standards ("ASEAN GBS"). The proceeds of the issuance must be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible Green Projects. Green Projects refer to the broad categories of eligible projects as listed in the ASEAN GBS, including renewable energy, pollution prevention and control, terrestrial and aquatic biodiversity conservation, among others. The list is non-exhaustive, but all Green Projects must provide clear environmental benefits which will be assessed and, where feasible, quantified by the issuer. The SEC circular further provides for various reporting and disclosure requirements, including annual reports to investors throughout the life of the green bonds.

On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks (QBs) affected by calamities. Under the framework, banks/QBs may avail of the regulatory relief packages, including the provision of financial assistance to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one (1) year from the date of declaration of state of calamity.

On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.

## TAXATION

*The following discussion is a general description of certain Philippine tax aspects relating to the Bonds. 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 Bonds 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 Bondholders are advised to consult their own tax advisers concerning the overall tax consequences of their investment in the Bonds.*

*The tax treatment of a holder of the Bonds 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 Bonds are not discussed below. This summary does not purport to address all tax aspects that may be important to a holder of the Bonds.*

### **INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCES OF OWNERSHIP AND DISPOSITION OF THE PARTICULAR BONDS 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 Bonds, are Philippine-sourced income subject to Philippine income tax.

The Tax Code defines “deposit substitutes” as an alternative form of obtaining funds from the public, other deposits, through the issuance endorsement, or acceptance of debt instruments for the borrower’s own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the “public” in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time.

The Bonds may be considered as deposit substitutes issued by Philippine residents with a maturity period of less than five (5) years. As such, interest income arising from the Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

Philippine citizens and resident alien individuals –	20%
Non-Resident aliens doing business in the Philippines –	20%
Non-resident aliens not doing business in the Philippines –	25%
Domestic corporations –	20%
Resident foreign corporations –	20%
Non-resident foreign corporation –	30%

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Many tax treaties to which the Philippines is a party provide for a preferential reduced rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties generally provide that the preferential rate will not apply if the recipient carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

## **TAX EXEMPT STATUS**

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Issuer, to the Registrar or Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed “valid, current and subsisting” if it has not been more than 3 years since the date of issuance thereof; (b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder’s current, valid and subsisting Certificate of Accreditation as PERA Administrator; (c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; (d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief (“CORTT”) Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and (e) Any other document that the Issuer or PDTC may require from time to time; (ii) a duly notarized declaration and undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities, or any tax or charge arising from the non-withholding of the required tax; and (iii) if applicable, such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax-exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed on the Issuer on account of such transfer.

## DOCUMENTARY STAMP TAXES (“DST”)

Pursuant to Section 179 the Tax Code, as amended, the original issuance of Bonds 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 price of debt instruments such as bonds and notes; provided that, for debt instruments with terms of less than one year, the documentary stamp tax collected shall be proportionate to the ratio of the number of days of the term of the instrument to 365 days. The Bank is liable for the payment of the DST on the original issuance of the Bonds. Currently, no DST is imposed on the secondary transfer, sale or disposition of the Bonds considering that such transfer, sale or disposition will not change the maturity date or remaining period of coverage from the original Bonds.

## TAXATION ON SALE OR OTHER DISPOSITION OF BONDS

If the Bonds are considered ordinary assets of individual Bondholders, gains from the sale or disposition of such Bonds are included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective 1 January 2018 until 31 December 2022:

<b>Not over ₱250,000</b>	<b>0%</b>
<b>Over ₱250,000 but not over ₱400,000</b>	<b>20% of the excess over ₱250,000</b>
<b>Over ₱400,000 but not over ₱800,000</b>	<b>₱30,000 + 25% of the excess over ₱400,000</b>
<b>Over ₱800,000 but not over ₱2,000,000</b>	<b>₱130,000 + 30% of the excess over ₱800,000</b>
<b>Over ₱2,000,000 but not over ₱8,000,000</b>	<b>₱490,000 + 32% of the excess over ₱2,000,000</b>
<b>Over ₱8,000,000</b>	<b>₱2,410,000 + 35% of the excess over ₱8,000,000</b>

For non-resident aliens not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

If the Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of the Bonds shall be subject to the same rates of income tax as if the Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Bonds for a period of more than twelve months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Bonds were held by an individual for a period of 12 months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Bonds are included in the computation of taxable income which is subject to a 30% income tax. Gains derived by non-resident foreign corporations on the sale or other disposition of the Bonds shall form part of their gross income which is subject to a 30% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the rules and regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

## VALUE-ADDED TAX

Gross receipts derived by dealers in securities from the sale of the Bonds in the Philippines shall be subject to value-added tax (“VAT”) of 12%. For purposes of this section, dealers in securities are merchants of stocks or securities, whether individual, partnership, or corporations, with an established place of business, regularly engaged in the purchase of securities and their resale to customers.

## GROSS RECEIPTS TAX

Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax (“GRT”) on gross receipts derived from sources within the Philippines at the following rates:

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%

In case the maturity period 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.

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.

Since maturity period of the Bonds is less than five (5) years, gross receipts derived from interest on the Bonds held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions are subject to 5% gross receipts tax.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

## **ESTATE AND DONOR'S TAX**

Beginning 1 January 2018, the transfer of Bonds upon the death of an individual Bondholder 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 Bondholders, whether or not citizens or residents of the Philippines, who transfer the Bonds 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 made during the calendar year.

The estate tax as well as the donor's tax in respect of the Bonds 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 Bonds 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 Bonds 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 Bonds) 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”) 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 Bonds are made may be required to withhold FATCA Withholding if any FFI through or to which payment on such Bonds 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 Bonds 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 Bonds by the Issuer, any paying agent, common depository, 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 Bonds. The documentation expressly contemplates that the Bonds 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.

## METHOD OF DISTRIBUTION

The Bonds are being issued pursuant to BSP Circular No. 1010 (Series of 2018) and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Bonds will be issued by the Issuer in several tranches under the Programme with (a) The Hongkong and Shanghai Banking Corporation Limited as the Lead Arranger and Bookrunner for the first issuance and Initial Selling Agent, (b) the Bank as Selling Agent, (c) Philippine Depository & Trust Corp. as Registrar and Paying Agent, (d) Development Bank of the Philippines – Trust Banking Group as Trustee, and (e) other Lead Arranger/s and Bookrunner/s and Selling Agents as confirmed by the Bank.

No action has been or will be taken by the Issuer or the relevant Lead Arranger/s and Bookrunner in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

The Lead Arranger/s and Bookrunner/s for each issuance are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets. The relevant Lead Arranger and Bookrunner appointed, save for RCBC Capital Corporation as the case may be, is a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine their independence.

The market maker as specified in the Pricing Supplement for each Issuance or Tranche is expected to provide live bids good for the minimum denomination under the General Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEX Trading Rules, Conventions, and Guidelines. The relevant Lead Arranger/s and Bookrunner/s for each issuance are not obligated to make a market for the Bonds. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Selling Agents or any affiliate of the Selling Agents is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Selling Agent or its affiliate on behalf of the Issuer in such jurisdiction.

The relevant Lead Arranger and Bookrunner or their respective affiliates may purchase the Bonds for its own account or enter into secondary market transactions or derivative transactions relating to the Bonds, including, without limitation, purchase, sale (or facilitation thereof), stock borrowing or credit or equity-linked derivatives such as asset swaps, repackagings and credit default swaps, at the same time as the offering of the Bonds. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be a purchaser of the Bonds). As a result of such transactions, the relevant Lead Arranger and Bookrunner or their respective affiliates may hold long or short positions relating to the Bonds. The relevant Lead Arranger and Bookrunner and their respective affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Issuer or its Affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, the relevant Lead Arranger and Bookrunner and its affiliates may, from time to time after completion of the offering of the Bonds, engage in other transactions with, and perform services for, the Issuer or its affiliates in the ordinary course of their business. The relevant Lead Arranger and Bookrunner and its affiliates may also purchase Bonds for asset management and/or proprietary purposes but not with a view to distribution or may hold Bonds on behalf of clients or in the capacity of investment advisors. While the relevant Lead Arranger and Bookrunner and its affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause the relevant Lead Arranger and Bookrunner or its affiliates or its clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Bonds. The relevant Lead Arranger and Bookrunner may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Bonds.

## DISTRIBUTION AND SALE

*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 General Terms and Conditions included herein, the Pricing Supplement, and the related Agreements regarding the offer, maintenance, trade and settlement of the Bonds. Prospective Bondholders should read this entire Offering Circular; the General 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 General Terms and Conditions, and/or the Agreements, as the case may be, shall at all times prevail.*

### Offering and Procedures

Pursuant to the Issue Management and Placement Agreement, Registry and Paying Agency Agreement and Trust Agreement, (the “Agreements”) entered into by the Bank with the relevant counterparties, and subject to the general terms and conditions of the Bond Certificate, as well as the applicable provisions of the MORB, the Bonds are being issued by the Bank with (a) The Hongkong and Shanghai Banking Corporation Limited as the Lead Arranger and Bookrunner for the first issuance and Initial Selling Agent, (b) the Bank as Selling Agent, (c) Philippine Depository & Trust Corp. as Registrar and Paying Agent, (d) Development Bank of the Philippines – Trust Banking Group as Trustee, and (e) other Lead Arranger/s and Bookrunner/s and Selling Agents as confirmed by the Bank for each series or tranche under the Programme.

The following is a summary of the procedures to be adopted among the parties and the prospective Bondholders 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 relevant Lead Arranger/s and Bookrunner/s and the relevant Selling Agents, shall solicit subscriptions to the Bonds from Bondholders. Prospective Bondholders may purchase the Bonds during the Offer Period by submitting fully and duly accomplished Applications to Purchase the Bonds (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. (or such earlier or later time as may be indicated in the Application to Purchase) on 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. The Issuer may, in consultation with the relevant Lead Arranger/s and Bookrunner/s, adjust the timetable as necessary, including closing the public offer period earlier, and subject to other factors, including, but not limited to, market conditions.

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 Bonds in accordance with the General 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 the relevant Bond issuance 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) Documents to be provided by 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) Documents to be submitted by 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 Bonds 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 Bondholders:
  - a. Certification disclosing the identity/ies of the beneficial owners (not needed if name/s of beneficial owners are already disclosed in the Application to Purchase)
  - 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 or apostillized in accordance with the Hague Convention Abolishing the Requirement of Legalization for Foreign Public Documents.
- 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 Bonds**

Applications to Purchase of the Bonds shall be subject to the availability of the Bonds and acceptance by the Bank. The relevant Lead Arranger/s and Bookrunner/s, in consultation with the Bank, reserve 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 Bondholder.

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 Bondholder. The Registrar shall distribute the Registry Confirmations directly to the Bondholders in accordance with the terms of the Registry and Paying Agency Agreement.

## **Transactions in the Secondary Market**

All secondary trading of the Bonds shall be coursed through the trading facilities of PDEX, subject to the payment by the Bondholder 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 enrolling or listing (as applicable) the Bonds in PDEX for secondary market trading. Upon enrollment or listing of the Bonds 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 Bonds 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 Bonds 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 Bonds as may be prescribed 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 Bonds 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 Bondholder 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 Bondholder:
  - 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, Schedule 4 of the Registry and Paying Agency Agreement as the Form of Indemnity Undertaking;
  - 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 Bonds in its favor;
  - 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 enrollment or listing of the Bonds 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 Bonds made in violation of the restrictions on transfer under the General 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 Bonds through a direct credit (via RTGS) of the proper amounts, net of taxes and fees (if any) to the Cash settlement banks of the Bondholders, for onward remittance to the relevant Cash Settlement Account of the Bondholders with the Cash settlement bank no later than 3:00 p.m. on each Payment Date.

Crediting of amounts in respect of the Bonds is at all times subject to the settlement procedures of RTGS and the internal clearing policies and procedures of each beneficiary/receiving bank.

### **Summary of Registry Fees**

The Registry shall be entitled to charge the 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 Bondholders in the Registry Book, the issuance, cancellation and replacement of any Registry Confirmation. The Registry will charge the following fees to holders:

#### **Transfer Fees in the Secondary Trading:**

1. Transfer Fee of ₱100.00 to be paid each by the transferring Bondholder and the buyer/transferee prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200 per transfer. For transfers from a registry account to the depository, the full charge of ₱200 per transfer shall be charged to the transferring Bondholder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a transferee who has no existing account in the Registry.
3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a Bondholder.

#### **Fees due to Non-Trade Transactions**

1. Transaction Fee of ₱100.00 to be paid each by the transferring Holder and the requesting party prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200 per transfer. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).

#### **Other Fees charged to the Bondholder:**

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Bondholders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

1. Fee of ₱200.00 to be paid upon each application of a certification request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Bondholder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request. A report that is not available from back-up CDROMs and will thus require system personnel intervention to generate.



## **INDEX TO FINANCIAL STATEMENTS**

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**JOINT ARRANGER AND INITIAL SELLING AGENT**

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