COVER SHEET

SEC Registration Number

AS094-002733

Company Name

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

Principal Office (No./Street/Barangay/City/Town/Province)

The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Minda L. Cayabyab	MLCayabyab@eastwestbanker.com	8575-3390	

Form Type	Department requiring the report	Secondary License Type, If Applicable
17-Q	Corporate Finance Dept.	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
99	November 11	December 31

To be accomplished by SEC Personnel concerned

File Number

LGU

Document ID

Cashier

STAMPS

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended	**:**	**September 30, 2020**
2. Commission Identification Number	:	**AS094-002733**
3. BIR Tax Identification Number	:	**003-921-057-000**
4. Exact name of issuer as specified in its charter	:	**EAST WEST BANKING CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization	:	**PHILIPPINES**
6. Industry Classification Code	:	(SEC Use Only)
7. Address of issuer's principal office	:	**The Beaufort, 5th Avenue, Corner 23rd St. Fort Bonifacio Global City, Taguig City** Postal Code **1634**
8. Issuer's telephone number, including area code	:	**+632 8575 3888 Extension 3304**
9. Former name, former address and former fiscal year, if changed since last report	:	**N/A**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of stock and amount of debt outstanding
Common Shares (Php 10 par)	**2,249,975,411 shares**
Subordinated Debt	**Php 1,240,500,863.31**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [✓] No [ ]

The company was listed in the Philippine Stock Exchange on May 7, 2012.

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

Name of exchange	:	**Philippine Stock Exchange**
Class of securities	:	**Common Shares**

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

    Yes [✓] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

    Yes [✓] No [ ]

PART I – FINANCIAL INFORMATION

Item 1. **Management's Discussion & Analysis of Consolidated Financial Position and Result of Operations** - Annex 1

Item 2. **Financial Statements**

Attached are the following:

Interim Consolidated Statements of Financial Position	-	Annex 2
Interim Consolidated Statements of Income	-	Annex 3*(page 1 of 2)*
Interim Consolidated Statements of Comprehensive Income	-	Annex 3*(page 2 of 2)*
Interim Consolidated Statements of Changes in Equity	-	Annex 4
Interim Consolidated Statements of Cash Flows	-	Annex 5
General Notes to Interim Consolidated Financial Statements	-	Annex 6
Financial Indicators	-	Annex 7
Aging of Loans and Receivables	-	Annex 8

PART II – OTHER INFORMATION

I. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of September 30, 2020:

Name of Stockholder	**Number of Shares Held**	**Percent of Total of Number of Shared Issued**
Filinvest Development Corporation	900,136,017	40.0%
Filinvest Development Corporation Forex	592,411,545	26.3%
PCD Nominee Corporation*	427,727,906	19.0%
FDC Forex Corporation	244,170,519	10.9%

**As of September 30, 2020, none among the stockholders under the PCD Nominee Corporation holds 5% of more of the Bank's securities.*

II. Pending Legal Proceedings

The Bank is involved in various legal proceedings in connection with the ordinary course of its business. The Bank believes that these cases will not have a material adverse effect on its financial position.

III. Board Resolutions

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

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

East West Banking Corporation
Issuer

By:

Antonio C. Moncupa, Jr.
President and CEO

Minda L. Cayabyab
Financial Controller

November 12, 2020

Annex 1

EAST WEST BANKING CORPORATION
SEC FORM 17 - Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2020

ITEM 1 - Management's Discussion & Analysis of Consolidated Financial Position and Results of Operations

Financial Performance Highlights

EastWest (the Bank or EW) registered a net income of ₱5.9 billion in the nine months of 2020, higher by 28% from the same period last year. The higher income during the period was sustained through better margins from its core lending and deposit-taking business, as well as higher trading gains. EW continues to increase provisions for bad loans in anticipation of the adverse impact of the pandemic on its loan portfolio. Provisions are up 2.9x from the previous year to ₱7.7 billion. EW announced in its Q1 2020 report that it is targeting ₱10.0 billion provisions for bad loans or 4% of its total loans for 2020. The Bank reported a Return on Equity (ROE) of 15%.

Net Interest Income (NII) increased by 33% or ₱4.9 billion to ₱20.1 billion. This was driven by lower interest rates on deposits complemented further with the improving deposit mix. As a result, Net Interest Margin (NIM) ended at 8.3%, from last year's 6.6%. The increase is significant because 2019 was higher than normal and 2020 is lower than normal. In the first half of 2019, interest rates were significantly higher coming from 2018 due to higher inflation expectations and tight market liquidity. As the monetary policy response manifested itself, price pressures abated, and interest rates started to normalize beginning 3Q 2019. On the other hand, deposit interest rates were pushed lower this year as the pro-active monetary policy response of BSP (i.e. lower policy rates and reserves) to anticipate the pandemic impact, supported market liquidity. Consequently, interest expense was lower by 47% or ₱3.1 billion for the period even as deposits were 11% higher. Complementing the lower interest expense on deposits was a much better deposit mix. CASA deposits increased by 26% to ₱211.5 billion while term deposits were 9% lower at ₱112.8 billion.

The drop-in interest rates not only locally but also globally, including the United States, opened up opportunities for trading gains on the Bank's fixed income portfolio. The Bank's securities trading gains amounted to ₱3.4 billion compared to ₱1.4 billion in the previous year.

Overall, net revenues of the Bank stood at ₱26.7 billion, higher by 27% or ₱5.7 billion from the₱21.0 billion in 2019. Core income, excluding securities trading and foreign exchange gains, increased by 19% to ₱23.3 billion from ₱19.6 billion the previous year.

Operating expenses, excluding provisions for losses decreased by 3% or ₱326.4 million to ₱ 12.0 billion. This was mainly due to lower business-related expenses from disruptions brought by the pandemic.

Provisions for losses meanwhile, increased to ₱7.7 billion or ₱5.0 billion higher than the previous year as the Bank continues to increase its buffer for loans. While the Bank is booking higher provisions than the actual soured loans, the full impact of the pandemic on loan borrowers remains unclear. The Bank would continue to remain cautious and prudent in its provisions for loan losses until there is more clarity on the actual extent of the pandemic-induced challenges to its borrowers. The Bank expects to book ₱10.0 billion, 4% of its total loans for the year 2020.

EW's total assets stood at ₱403.7 billion with total loans down 6% from the previous year, ending at ₱246.5 billion, mostly on account of contractual maturities and lower working capital requirements of its borrowers. Furthermore, it expects the anemic lending conditions to persist until the end of the year, as businesses and households hold off borrowings as the pandemic continues. The Bank expects the decline in loans to be more significant from the previous year, in Q4 2020. In the first three quarters, the year-on-year drop was mitigated by the significant increase in the Q4 2019 and Q1 2020. Starting April, loan growth has been muted because of the pandemic. A phenomenon that is also apparent in the Q1 2020 vs Q3 2020 banking system loan growth.

Deposits meanwhile, increased by 11% to ₱324.3 billion. CASA, grew by 26% to ₱211.5 billion, allowing the Bank to reduce its dependence on term deposits by 9% to ₱112.8 billion, subsequently complementing EW's margin improvement. CASA ratio was at 65% compared to 57% the previous year.

Financial Position

<u>Loans</u>
Total gross loans declined by 6% to ₱249.2 billion, mainly due to contractual maturities and lower working capital requirements of its business borrowers.

<u>Securities</u>
The Bank's total securities portfolio increased by 9% to ₱62.3 billion. Hold-To-Collect (HTC) securities portfolio decreased by 25% to ₱35.6 billion as the Bank sold a portion of the portfolio. EW early in the year, decided not to proceed with its capital raising activity due to difficult capital market conditions. Instead, it raised capital by selling its Hold-to-Collect securities portfolio. Thus, a significant part of the booked trading gains was accounted for by the sale.

<u>Deposits</u>
Total deposits stood at ₱324.3 billion or 11% higher from the same period last year. This was solely driven by CASA, growing by 26% to ₱211.5 billion. In contrast, Time deposits including LTNCD's, dropped by 9% to ₱112.8 billion as the growth in CASA, lower cost alternative funding sources and the limited lending opportunities lessened the need for high cost funding.

Capital
The Bank's Capital Adequacy Ratio (CAR) under Basel III, has remained adequate at 13.4% as of September 30, 2020, while Common Equity Tier 1 (CET-1) ratio stood at 12.2%. The Bank's Tier 1 capital is composed entirely of common equity. Capital ratios have remained within BSP standards even with the redemption of the ₱5.0 billion Unsecured Subordinated Debt (Tier 2) last quarter.

Credit Quality
The Bank's total non-performing loans (NPL) to total gross loans, net of specific allowances stood at 4.2% on September 30, 2020 compared to 2.8% the previous year. The Bank regularly assesses the risk profiles of its loan portfolio amidst the continuously developing pandemic to ensure expected credit losses are adequately provisioned and aligned with regulatory standards.

Result of Operations

Revenues
Revenues rose by 27% to ₱26.7 billion from ₱21.0 billion in the same period last year. Securities and foreign exchange trading gains were at ₱3.4 billion compared to ₱1.4 billion the previous year. Fees and other income, excluding trading gains, decreased by 28% to ₱3.2 billion. Net interest income stood at ₱20.1 billion, growing by 33% from last year's ₱15.2 billion. The 8% growth in interest income from earning assets was complemented with the 47% drop in interest expenses as cost of funding decreased sharply, reversing the challenges in 2019.

Fees and Other Income excluding Trading Gains
Fees and other income, excluding trading gains, were at ₱3.2 billion which was 28% lower than the ₱4.4 billion posted in the same period last year. The decrease primarily came from lower fees and commissions brought about by lower transactions across all businesses due to COVID-19. Other non-interest income, meanwhile, were lower by 44% or ₱226.0 million to ₱282.3 million, mostly due to one-time gains on sale of written off assets in the same period last year.

Trading Income/(Loss)
Securities trading and foreign exchange gains were at ₱3.4 billion compared to ₱1.4 billion last year. Securities trading gains ended at ₱3.1 billion, higher by ₱2.2 billion from ₱871.6 million last year. Foreign Exchange gains ended at ₱272.6 million, lower by 48% or ₱253.4 million from ₱526.0 million last year.

Operating Expenses excluding Provisions for Losses
Total operating expenses, excluding provisions for losses, decreased by 3% to ₱12.0 billion during the period. Compensation-related expenses decreased by 3% to ₱4.1 billion driven by lower retirement and recreational expenses, while other operating expenses were also down at ₱7.9 billion resulting from lower transactions and regulatory expenses.

Provisions for Losses
Provisions for losses increased to ₱7.7 billion or ₱5.0 billion higher than previous year as the Bank continues to be prudent in anticipation of the uncertainties brought by the COVID-19 pandemic.

Summary of Key Financials and Ratios

Balance Sheet (in Php billions)	September 30, 2020	September 30, 2019	y/y Growth %
Assets	403.7	387.3	4%
Consumer Loans	193.0	193.0	0%
Corporate Loans	56.1	71.3	-21%
Low Cost Deposits (CASA)	211.5	167.9	26%
High Cost Deposits	112.8	123.7	9%
Capital	55.2	47.3	17%

Profitability (in Php millions)	September 30, 2020	September 30, 2019	y/y Growth %
Net Interest Income	20,117.3	15,181.9	33%
Trading Income / (Loss)	3,371.4	1,397.6	141%
Fees & Other Income	3,217.7	4,439.0	-28%
Operating Expenses	12,018.2	12,344.5	-3%
Provision for Losses	7,690.7	2,734.8	181%
Provision for Taxes	864.0	1,092.1	-21%
Net Income After Tax	5,924.7	4,639.2	28%

Key Financial Ratios	September 30, 2020	September 30, 2019	Variance b/(w)
Return on Equity[1]	15.1%	13.8%	1.3%
Return on Assets[2]	2.0%	1.6%	0.4%
Net Interest Margin[3]	8.3%	6.6%	1.6%
Cost-to-Income Ratio[4]	45.0%	58.7%	13.7%
Capital Adequacy Ratio[5]	13.4%	13.0%	0.5%
Tier-1 Ratio	12.2%	10.4%	1.9%

[1] *Net Income divided by average total equity*
[2] *Net Income divided by average total assets*
[3] *Net Interest Income divided by average interest-earning assets*
[4] *Operating expenses divided by net revenues*
[5] *Total qualifying capital divided by total risk-weighted assets*

Business Segment Performance

The Bank's recurring income base continues to expand from its Consumer Lending/Retail Banking segments. Net interest margin (NIM) remains at an industry leading 8.3% as of reporting period. This recurring income is largely attributable to the growing customer base and market share of the Bank.

Consumer Lending was flat at ₱193.0 billion from the same period last year as households held off borrowings. Corporate Banking however, posted a decline of 21% or ₱15.2 billion to ₱ 56.1 billion. There were maturities from thirteen accounts amounting to about ₱10.0 billion. Car dealers inventory financing was also lower due to weak car sales.

Other Information:
As of September 30, 2020, EastWest Bank has a total of 391 stores, with 212 of these stores in Metro Manila. For the rest of the country, the Bank has 100 stores in other parts of Luzon, 40 branches in Visayas, and 39 stores in Mindanao. The total ATM network is 585, composed of 400 on-site ATMs and 185 off-site ATMs. Total headcount of EastWest is 6,197.

The Bank's subsidiaries have a total of 76 stores and 1,374 officers/staff, bringing the group store network total to 467 with 585 ATMs and a combined manpower complement of 7,571.

Known trends, demands, commitments, events or uncertainties
There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation
There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations
There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Capital Expenditures
The Bank has commitments for capital expenditures mainly for implementation of IT projects. These are not expected to significantly affect the Bank's cash or liquidity position.

Significant Elements of Income or Loss
Significant elements of the consolidated net income of the Bank for the nine (9) months ended September 30, 2020 and 2019 came from its continuing operations.

Seasonal Aspects
There are no seasonal aspects that had a material effect on the Bank's financial condition and results of operations.

Vertical and Horizontal Analysis of Material Changes for the Period
The term "material" in this section shall refer to changes or items amounting to five percent (5%) of the relevant accounts or such lower amount, which the Bank deems material on the basis of other factors.

I. Balance Sheet – September 30, 2020 vs. December 31, 2019

- Cash and cash equivalents decreased by 14% to ₱6.5 billion due to the leveling-off of cash in vault from the usual year-end build-up.
- Due from BSP increased by 21% to ₱41.6 billion due to deposits with BSP in the Overnight Deposit Facility (ODF) and Term Deposit Auction Facilty (TDAF).
- Due from other banks increased to ₱11.6 billion due to higher level of placements and working balances with counterparty banks.

- Interbank loans receivable increased to ₱14.1 billion as more funds were placed in higher-yielding liquid assets.
- Financial assets at fair value through profit and loss decreased by 28% to ₱12.2 billion due to net sales in the Bank's proprietary trading portfolio.
- Financial assets at fair value through Other Comprehensive Income increased to ₱ 14.5 billion due to net purchases in the Bank's proprietary trading portfolio.
- Investment securities at amortized cost decreased by 28% to ₱35.6 billion due to sale of Securities in line with the Bank's balance sheet business model.
- Investment in a joint venture account increased by 9% to ₱755.0 million due to the additional investment made by the Bank in the joint venture offset by the proportionate share of the Bank in its net loss.
- Property and equipment decreased by 5% to ₱5.1 billion primarily due to amortization.
- Deferred tax assets increased by 56% to ₱3.8 billion on account of provisions set-up, net of write-offs during the period.
- Bills and acceptance payables decreased by 89% to ₱3.3 billion mainly from lower volume of interbank borrowings and repo borrowings.
- Unsecured subordinated debt decreased by 80% to ₱1.2 billion due to redemption.
- Accrued taxes, interest and other expenses increased by 5% to ₱3.2 billion due to accrual of regulatory and other expenses.
- Cashier's checks and demand draft payable increased by 13% to ₱1.5 billion on account of higher level of outstanding manager's check issued.
- Income tax payable increased by 76% to ₱1.1 billion due to higher taxable income for the year.

II. Income Statement – September 30, 2020 vs. September 30, 2019

- Interest income increased by 8% to ₱23.6 billion primarily driven by previous year's growth in loans and investment securities.
- Interest expense decreased by 47% to ₱3.5 billion due to declining interest rates and growth in low-cost deposits.
- Service charges, fees and commissions decreased by 25% to ₱2.9 billion due to lower loan-related fees and charges.
- Securities trading gains amounted to ₱3.1 billion, higher by ₱2.2 billion from the previous year.
- Foreign exchange gains decreased by 48% to ₱272.6 million due to gains from third currency swap transactions last year and lower income from transaction flows this year (i.e. spread trading and credit cards foreign exchange fees).
- Trust income increased by 15% to ₱57.1 million due to the growth in the Bank's assets under management.
- Loss on sale of assets and foreclosures amounted to ₱74.1 million, lower by ₱68.6 million due to less assets sold for the year.
- Miscellaneous income lower by 36% to ₱299.2 million due mainly to less recoveries from written off assets.
- Miscellaneous expenses decreased by 6% to ₱4.2 billion due to lower business-related expenses from collections, fees and commissions expense (cards-related) and litigation.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

Interim Consolidated Financial Statements
As of September 30, 2020 (Unaudited) and December 31, 2019 (Audited)
and for the quarters ended September 30, 2020 and September 30, 2019 (Unaudited)

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2020 (*With Comparative Figures for December 31, 2019)*

(Amounts in Thousands of Philippine Peso)

	2020 (Unaudited)	2019 (Audited)
ASSETS		
Cash and Other Cash Items	**₱6,446,484**	₱7,454,625
Due from Bangko Sentral ng Pilipinas	**41,593,689**	34,287,302
Due from Other Banks	**11,611,187**	3,403,926
Interbank Loans Receivable	**14,060,679**	2,691,882
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 7)	**12,174,392**	16,840,709
Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) (Note 7)	**14,525,787**	4,650,636
Investment Securities at Amortized Cost (Note 7)	**35,631,139**	49,386,070
Loans and Receivables (Note 8)	**246,472,270**	267,647,738
Investment in a Joint Venture	**754,980**	694,114
Property and Equipment	**5,141,104**	5,436,761
Investment Properties	**998,106**	949,138
Deferred Tax Assets	**4,397,579**	2,821,217
Goodwill and Other Intangible Assets (Note 9)	**6,805,050**	6,897,500
Other Assets	**3,116,939**	3,162,671
TOTAL ASSETS	**₱403,729,395**	₱406,324,289
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**₱89,937,761**	₱88,757,787
Savings	**121,546,263**	98,027,632
Time	**100,423,306**	104,605,705
Long-term negotiable certificates of deposits	**12,419,747**	13,335,031
	324,327,077	304,726,155
Lease Liability (Note 12)	**3,429,498**	3,302,981
Bills and Acceptances Payable	**3,272,962**	30,949,753
Accrued Taxes, Interest and Other Expenses	**3,189,044**	3,033,033
Cashier's Checks and Demand Draft Payable	**1,486,834**	1,320,236
Bonds Payable (Note 10)	**3,674,947**	–
Subordinated Debt (Note 11)	**1,240,501**	6,219,011
Income Tax Payable	**1,051,289**	595,851
Other Liabilities	**6,884,790**	7,109,936
TOTAL LIABILITIES	**348,556,942**	357,256,956
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY		
Common Stock (Note 13)	**22,499,754**	22,499,754
Additional Paid-in Capital	**5,065,059**	5,065,059
Surplus Reserves	**928,708**	928,708
Surplus	**26,505,418**	20,580,707
Net unrealized Gains on FVTOCI	**207,860**	28,328
Remeasurement Losses on Retirement Plan	**(125,244)**	(124,788)
Cumulative Translation Adjustment	**90,898**	89,565
TOTAL EQUITY	**55,172,453**	49,067,333
TOTAL LIABILITIES AND EQUITY	**₱403,729,395**	₱406,324,289

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF INCOME
For the periods ended September 30, 2020 and 2019
(Amounts in Thousands of Philippine Peso)

	(Unaudited)			
	September 30			
	2020	**2019**	**2020**	2019
	For the quarter ended	For the quarter ended	**For the Nine Months Ended**	For the Nine Months Ended
INTEREST INCOME				
Loans and receivables	**₱6,939,317**	₱6,872,682	**₱21,542,299**	₱20,051,101
Financial assets at FVTOCI and investment securities at amortized cost	**453,227**	533,340	**1,476,337**	1,427,568
Financial assets at FVTPL	**99,387**	114,553	**397,063**	232,448
Due from other banks and interbank loans receivable and securities purchased under resale agreements	**125,698**	12,630	**172,112**	49,687
	7,617,629	7,533,205	**23,587,811**	21,760,805
INTEREST EXPENSE				
Deposit liabilities	**773,992**	1,607,566	**2,952,553**	5,505,760
Subordinated debt, bills payable and others	**73,759**	362,504	**336,402**	857,590
Lease Liability	**61,863**	64,877	**181,533**	215,556
	909,614	2,034,947	**3,470,488**	6,578,906
NET INTEREST INCOME	**6,708,015**	5,498,258	**20,117,322**	15,181,899
Gain on sale of investment securities at amortized cost	–	–	**1,827,981**	–
Service charges, fees and commissions	**1,147,495**	1,222,919	**2,935,433**	3,930,697
Foreign exchange gain	**95,230**	419,674	**272,586**	525,984
Trust income	**20,094**	18,209	**57,120**	49,713
Loss on sale of assets and asset foreclosure	**(29,877)**	(59,071)	**(86,590)**	(141,542)
Gain on sale of assets	**32,104**	217,611	**12,500**	136,070
Trading and securities gain (loss)	**166,160**	348,392	**1,270,832**	871,612
Miscellaneous	**146,674**	129,653	**299,249**	464,019
TOTAL OPERATING INCOME	**8,285,895**	7,795,645	**26,706,433**	21,018,452
OPERATING EXPENSES				
Compensation and fringe benefits	**1,406,802**	1,668,909	**4,125,432**	4,270,258
Provision for impairment and credit losses	**2,223,520**	1,074,871	**7,690,669**	2,734,846
Taxes and licenses	**685,547**	701,108	**2,000,601**	2,018,012
Depreciation and amortization	**528,846**	514,118	**1,635,431**	1,480,158
Rent	**22,178**	19,025	**68,354**	136,058
Miscellaneous	**1,352,578**	1,542,793	**4,188,371**	4,440,057
TOTAL OPERATING EXPENSES	**6,219,471**	5,520,824	**19,708,858**	15,079,389
INCOME BEFORE SHARE IN NET INCOME OF JOINT VENTURE	**2,066,424**	2,274,821	**6,997,575**	5,939,062
SHARE IN NET LOSS OF JOINT VENTURE	**(55,743)**	(67,194)	**(208,819)**	(207,725)
INCOME BEFORE INCOME TAX	**2,010,681**	2,207,626	**6,788,756**	5,731,337
PROVISION FOR INCOME TAX	**538,776**	270,553	**864,045**	1,092,135
NET INCOME	**₱1,471,905**	₱1,937,073	**₱5,924,711**	**₱4,639,202**
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱1,471,905**	₱1,937,073	**₱5,924,711**	₱4,639,202
Non-controlling interest	–	–	–	–
NET INCOME	**₱1,471,905**	₱1,937,073	**₱5,924,711**	4,639,202
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱0.65**	₱0.86	**₱2.63**	**₱**2.06
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱0.65**	₱0.86	**₱2.63**	**₱**2.06

See accompanying Notes to Unaudited Interim Financial Statements

Annex 3
(page 2 of 2)

EAST WEST BANKING CORPORATION AND SUBSIDIARIES
INTERIM STATEMENTS OF COMPREHENSIVE INCOME
For the periods ended September 30, 2020 and 2019
(Amounts in Thousands of Philippine Peso)

	(Unaudited)			
	September 30			
	2020	2019	**2020**	2019
	For the quarter ended	For the quarter ended	**For the Nine Months Ended**	For the Nine Months Ended
NET INCOME FOR THE PERIOD	**₱3,670,451**	₱1,937,073	**₱5,924,711**	₱4,639,202
OTHER COMPREHENSIVE INCOME				
Change in remeasurement loss of retirement liability	**(456)**	–	**(456)**	3,704
Change in fair value reserves on equity securities at FVTOCI	**19,685**	–	**13,815**	–
Change in fair value reserves on debt securities at FVTOCI	**(172,343)**	29,183	**165,717**	39,036
Cumulative translation adjustment	**4,650**	(214,455)	**1,333**	(17,380)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(148,464)**	(185,272)	**180,409**	25,360
TOTAL COMPREHENSIVE INCOME	**₱1,323,443**	₱1,751,801	**₱6,105,120**	₱4,664,562
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱1,323,443**	₱1,751,801	**₱6,105,120**	₱4,664,562
Non-controlling interest	**–**	–	**–**	–
TOTAL COMPREHENSIVE INCOME	**₱1,323,443**	₱1,751,801	**₱6,105,120**	₱4,664,562

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the periods ended September 30, 2020 and 2019

(Amounts in Thousands of Philippines Peso)

	(Unaudited)							
	Nine Months Ended September 30, 2020							
	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid-in Capital	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at FVTOCI	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2020	**₱22,499,754**	**₱5,065,058**	**₱928,708**	**₱20,580,707**	**₱28,328**	**(₱124,788)**	**₱89,565**	**₱49,067,332**
Net Income	–	–	–	**5,924,712**	–	–	–	**5,924,712**
Other Comprehensive Income	–	–	–	–	**179,532**	**(456)**	**1,333**	**180,408**
Total comprehensive income (loss)	–	–	–	**5,924,712**	**179,532**	**(456)**	**1,333**	**6,105,120**
Balances at September 30, 2020	**₱22,499,754**	**₱5,065,059**	**₱928,708**	**₱26,505,419**	**₱207,860**	**(₱125,244)**	**₱90,898**	**₱55,172,453**

	Consolidated							
	Nine Months Ended September 30, 2019							
	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid-in Capital	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at FVTOCI	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2019	₱22,499,754	₱5,065,059	₱921,655	₱14,353,812	(₱10,293)	(₱77,991)	(₱94,822)	₱42,657,174
Net Income	–	–	–	4,639,202	–	–	–	4,639,202
Other Comprehensive income (loss)	–	–	–		39,036	3,704	(17,380)	4,664,561
Total comprehensive income (loss)	–	–	–	4,639,202	39,036	3,704	(17,380)	4,664,561
Transfer to surplus reserves	–	–	4,971	(4,971)	–	–	–	–
Balances at September 30, 2019	₱22,499,754	₱5,065,059	₱926,626	₱18,988,042	₱28,743	(₱74,287)	(₱112,202)	₱47,321,735

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2020 and 2019
(Amounts in Thousands of Philippine Peso)

	(Unaudited)	
	Nine Months Ended September 30	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱6,788,755**	₱5,731,337
Adjustments for:		
Provision for credit and impairment losses	**7,690,669**	2,734,846
Depreciation and amortization	**1,500,032**	1,370,184
Loss (gain) on sale of assets	**(12,500)**	136,070
Loss (gain) on asset foreclosure and dacion	**86,590**	141,542
Share in net loss of joint venture	**(47,051)**	(142,275)
Unrealized market valuation loss (gain) on financial assets at FVTPL	**–**	172,604
Gain on sale of investment securities at amortized cost	**1,827,981**	**–**
Amortization of intangible assets	**135,398**	109,974
Amortization of debt issuance costs	**(4,978,510)**	3,375
Accretion of lease liability	**181,533**	215,556
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at FVTPL	**1,662,611**	(12,813,734)
Financial assets at FVTOCI	**(108,421)**	(3,730,464)
Financial Assets at Amortized Cost	**(190,289)**	**–**
Loans and receivables	**12,298,755**	(20,153,223)
Other assets	**(690,542)**	(298,345)
Increase (decrease) in:		
Deposit liabilities	**19,600,922**	3,384,149
Lease Liability	**–**	(254,854)
Accounts payable and accrued expenses	**156,011**	252,419
Cashier's checks and demand draft payable	**166,598**	570,311
Other liabilities	**485,386**	(898,733)
Net cash generated from (used in) operations	**46,553,928**	(23,900,372)
Income taxes paid	**(1,938,352)**	(1,167,088)
Net cash provided in operating activities	**44,615,576**	(25,067,460)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturity of:		
Financial assets at FVPL	**157,984,654**	–
Financial Assets at fair value through OCI	**5,919,967**	–
Investment securities at amortized cost	**12,117,240**	–
Investment properties and other repossessed assets	**1,390,958**	2,048,284
Property and equipment	**(10,481)**	(189,183)
Acquisitions of:		
Financial assets at FVPL	**(154,980,948)**	–
Financial asset at fair value through OCI	**(15,520,980)**	–
Investment securities at amortized cost	**–**	(11,162,143)
Property and equipment	**(831,332)**	8,206
Capitalized software	**(42,948)**	(89,146)
Additional Capital Infusion	**–**	**–**
Net cash used in investing activities	**6,026,130**	(9,383,982)
CASH FLOWS FROM FINANCING ACTIVITIES		

Increase (decrease) in bills and acceptances payable	**(27,676,791)**	8,452,807
Issuance of common stock, net of direct related cost	–	–
Payment on lease liability	**(765,548)**	–
Proceeds from bonds payable	**3,674,947**	–
Net cash provided by financing activities	**(24,767,392)**	8,452,807
NET DECREASE IN CASH AND CASH EQUIVALENTS	**₱25,874,314**	(₱25,998,635)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**₱7,454,625**	₱7,185,241
Due from Bangko Sentral ng Pilipinas	**34,287,302**	40,481,956
Due from other banks	**3,403,926**	10,233,240
Interbank Loans Receivable	**2,691,882**	5,862,670
	₱47,837,735	₱63,763,107
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**₱6,446,484**	₱6,195,865
Due from Bangko Sentral ng Pilipinas	**41,593,699**	22,082,452
Due from other banks	**11,611,187**	9,118,160
Interbank Loans Receivable	**14,060,679**	367,993
	₱73,712,049	₱37,764,470
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱19,765,637**	₱22,320,228
Interest paid	**3,863,924**	7,027,206
Dividend received	**2,524**	1,262

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

GENERAL NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

East West Banking Corporation (EW or the Bank or the Parent Company) is a domestic universal bank which was registered with the SEC on March 22, 1994. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to operate as a commercial bank and operate an expanded foreign currency deposit unit in 1994. Subsequently in 2012, the Parent Company has been authorized by the BSP to operate as a universal bank. The Parent Company’s common shares were listed and commenced trading in the Philippine Stock Exchange (PSE) on May 7, 2012.

As of September 30, 2020, the Parent Company is effectively 77.85% owned by Filinvest Development Corporation (FDC). The Parent Company’s ultimate parent company is A.L. Gotianun, Inc. The Parent Company’s head office is located at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

Through its network of 467 branches as of September 30, 2020, the Bank and its subsidiaries (the Group) provides a wide range of financial services to consumer and corporate clients which includes deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management, custodial services, insurance services and leasing and finance.

2. Summary of Significant Accounting Policies

<u>Basis of Presentation</u>
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative financial instruments that have been measured at fair value. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand except when otherwise indicated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso, which is the Parent Company’s presentation currency (see accounting policy on Foreign Currency Transactions and Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of all subsidiaries and the joint venture is the Philippine peso.

<u>Statement of Compliance</u>
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The Group presents its statement of financial position broadly in order of liquidity.

Basis of Consolidation

The Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company using consistent accounting policies. The following are the wholly-owned subsidiaries of the Parent Company as of September 30, 2020 and December 31, 2019:

		Effective Percentage of Ownership	
	Principal Activities	**2020**	2019
East West Rural Bank, Inc. (EWRB)	Consumer banking	**100.00**	100.00
East West Insurance Brokerage, Inc. (EWIB)	Non-life insurance brokerage	**100.00**	100.00
East West Leasing and Finance Corporation (EWLFC)	Finance and leasing	**100.00**	100.00
Quest Marketing and Integrated Services, Inc.	Sales and marketing	**100.00**	100.00
Assurance Solutions Insurance Agency (ASIA)	General insurance and marketing	**100.00**	100.00

All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in the consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Parent Company. Control is achieved where the Parent Company is exposed, or has rights, to variable return from its involvement with an entity and has the ability to affect those returns through its power over the entity. The Parent Company has power over the entity when it has existing rights that give it the current ability to direct relevant activities (i.e., activities that significantly affect the entity's returns). Consolidation of subsidiaries ceases when control is transferred out of the Parent Company. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income from the date of acquisition or up to the date of disposal, as appropriate.

Adoption of New and Amended PFRS

(a) Standards effective in 2020 that are Relevant to the Group

The accounting policies adopted are consistent with those of the previous financial year, except that the Group's has adopted the following new accounting pronouncements starting January 1, 2019:

- PFRS 16, *Leases*

  PFRS 16 supersedes PAS 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases-Incentives and Philippine Interpretation* SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the balance sheet.

  Lessor accounting under PFRS 16 is substantially unchanged from the accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.
  On January 1, 2019, the Group adopted PFRS 16 following the modified retrospective approach. Under the modified retrospective approach, the Group did not restate prior-period comparative financial statements which remain to be reported under PAS 17. Therefore, some accounts in the comparative financial statements are not comparable to the information presented for 2019.

  The Group elected to use the following transition practical expedients:

- Applied the standard only to contracts that were previously identified as leases, applying the old standards at the date of initial recognition;
- Used the recognition exemptions for short-term leases and lease contracts for low-value assets;
- Relied on its assessment whether leases are onerous immediately before the date of initial recognition; and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

The Group has lease contracts for office branches, warehouses, spaces for Automated Teller Machines (ATMs), and office equipment. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. All leases (as lessee) were classified as operating leases. In an operating lease, the leased property was not capitalized, and the lease payments were recognized as rent expense under 'Rent' in the statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in 'Other assets', and 'Accrued other expenses' lodged in 'Accrued taxes, interest and other expenses', respectively.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases (as lessee) except for short-term leases and leases of low-value assets. The Group recognized lease liabilities representing lease payments and right-of-use assets (ROU) representing the right to use the underlying assets. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application. ROU assets were recognized based on the amount equal to the lease liabilities adjusted for any related prepaid and accrued lease payments previously recognized.

- IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities
  - How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - How an entity considers changes in facts and circumstances

  The entity is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The entity shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the entity expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its tax compliance review, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated and parent company financial statements of the Group.

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

  These amendments had no impact on the consolidated financial statements of the Group as it does not have instruments with prepayment features.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

  The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

  - Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

  - Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

  The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

  The amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

    - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*

      The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

      A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

      An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where joint control is obtained.

    - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

      The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

      An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments had no impact on the consolidated financial statements of the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

    - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

      The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

      An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

      Since the Group’s current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Definition of a Business*. The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also added guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

  An entity applies these amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

  These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*. The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

  An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

(b) Standards Issued but not yet Effective

There are new PFRS, amendments, interpretation and annual improvements, to existing standards effective for annual periods subsequent to 2020, which were adopted by the Financial Reporting Standards Council (FRSC). The Group will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's financial statements:

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*. The standard is a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as these become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. Financial Risk Management

The risk exposure of the Parent Company and its subsidiary (the Group) in credit, market, interest rate, and liquidity remain contained within its risk limits and adequately covered by its available capital.

Specifically, notable risk exposures, where most emanate from the Parent Company, as of the end of third quarter of 2020 in the following areas are summarized below.

- Credit risk: Potential risk is well within regulatory capital as gleaned from the following indicators.

    - Credit quality of portfolio remains at a composite rating of 'Satisfactory' for its corporate portfolio, 'Standard' grade for most of its secured and unsecured consumer portfolios, and its non – tradable investment portfolio at 'BBB+' composite rating.
    - Loan portfolio security profile is over 55% secured given the significant proportion of consumer lending business. For the portfolio of products that normally require collateral, the Bank remains healthy at over 70% secured.
    - No credit concentration in size, borrower, and industry as defined by BSP and internal risk policies.

- Market risk: Around 1.8% of the Parent Company's Qualifying Capital or around 5% of the market value of the trading position is the potential expected loss on the Parent Company's trading book on account of potential adverse movements in interest rate and foreign exchange rate.

- Interest rate risk: The interest rate risk impact given a potential adverse movement remains compliant with the minimum internal Earnings-at-Risk (EaR) limit. At the consolidated level of the banking book, given the view of interest rate being stable, an average of 80 bps movement in interest rate will reduce the budgeted Net Interest Income and Net Income for 2020 by 1% and 2%, respectively.

- Liquidity risk: There is no imminent liquidity risk as the Group remains to be generally liquid, particularly in the near term or within the one-year horizon, with sufficient sources of funding as and when the need arises. Regulatory and internal risk limits are duly complied with.

In anticipation of the fallout from the COVID19 pandemic, where its impact is unprecedented, the Group responded by setting aside loss reserves and will continue to do so as impact of said pandemic unfolds.

With capital level, after the abovementioned loss reserves, standing over P46 billion, the Group remains to be capital accretive on a net basis and compliant with the regulatory minimum, in accordance with the supervisor’s prescriptions, as well as cover for the above approximated risk exposures.

Thus, except for the meantime tempered risk-taking as a consequence of the pandemic, the Group’s risk management policies remain generally the same as in 2019. The Group’s 2019 audited financial statements discuss in detail its risk exposures and its related policies.

5. Fair Value Measurement

The Group measures certain financial instruments such as financial assets at FVTPL, financial assets at FVTOCI and derivative financial instruments, at fair value at each statement of financial position date. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant non-financial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The following table provides the fair value hierarchy of the Group's assets and liabilities measured at fair value and those for which fair values are required to be disclosed as of September 30, 2020 and December 31, 2019 as follows:

	Consolidated				
	September 30, 2020 (Unaudited)				
	Carrying Value	Total Fair Value	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	**₱11,728,282**	**₱11,728,282**	**₱11,728,282**	**₱–**	**₱–**
Private bonds	**435,780**	**435,780**	**435,780**	**–**	**–**
Equity securities	**10,331**	**10,331**	**10,331**	**–**	**–**
	12,174,392	**12,174,392**	**12,174,392**	**–**	**–**
Derivative assets	**51,529**	**51,529**	**–**	**51,529**	**–**
Financial assets at FVTOCI					
Government securities	**14,525,786**	**14,525,786**	**14,525,786**	**–**	**–**
Equity securities	**1**	**1**	**1**	**–**	**–**
	14,525,787	**14,525,787**	**14,525,787**	**–**	**–**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	**28,119,056**	**32,308,255**	**32,308,255**	**–**	**–**
Private bonds	**7,512,084**	**7,990,354**	**7,990,354**	**–**	**–**
	35,631,139	**40,298,609**	**40,298,609**	**–**	**–**
Loans and receivables					
Receivable from customers:					
Corporate lending	**55,127,351**	**59,067,016**	**–**	**–**	**59,067,016**
Consumer lending	**182,970,882**	**240,449,001**	**–**	**–**	**240,449,001**
Unquoted debt securities	**261,435**	**338,960**	**–**	**–**	**338,960**
Other Receivables	**7,748,890**	**9,018,693**	**–**	**–**	**9,018,693**
	246,108,557	**308,873,669**	**–**	**–**	**308,873,669**

	Consolidated				
	September 30, 2020 (Unaudited)				
	Carrying Value	**Total Fair Value**	**Quoted Prices in active market (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Non-financial assets					
Investment properties	**998,106**	**1,668,570**			**1,668,570**
Total assets	**₱308,491,405**	**₱375,923,987**	**₱66,998,789**	**₱51,529**	**₱308,873,669**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	**₱108,788**	**₱108,788**	**₱−**	**₱108,788**	**₱−**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	**89,937,761**	**89,937,761**	−	−	**89,937,761**
Savings	**121,546,263**	**121,546,263**	−	−	**121,546,263**
Time	**100,423,306**	**100,662,730**	−	−	**100,662,730**
LTNCD	**12,419,747**	**15,439,545**	−	−	**15,439,545**
	324,327,077	**327,586,299**	−	−	**327,586,299**
Lease liability	**3,429,498**	**3,481,954**	−	−	**3,481,954**
Bills Payable	**3,272,962**	**3,272,962**	−	−	**3,272,962**
Bonds Payable	**3,674,947**	**3,701,501**	−	−	**3,701,501**
Subordinated debt	**1,240,501**	**1,461,177**	−	−	**1,461,177**
Total liabilities	**₱336,053,771**	**₱339,612,680**	**₱−**	**₱108,788**	**₱339,503,893**

	Consolidated				
	December 31, 2019 (Audited)				
	Carrying Value	Total Fair Value	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Government securities	₱16,768,178	₱16,768,178	₱16,768,178	−	−
Private bonds	62,188	62,188	62,188	−	−
Equity securities	10,343	10,343	10,343	−	−
	16,840,709	16,840,709	16,840,709	−	−
Derivative assets*	104,313	104,313	−	104,313	−
Financial assets at FVTOCI:					
Government securities	4,650,635	4,650,635	4,650,635	−	−
Equity securities	1	1	1	−	−
	4,650,636	4,650,636	4,650,636	−	−
	21,595,658	21,595,658	21,491,345	104,313	−
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	40,244,099	44,358,323	44,358,323	−	−
Private bonds	9,141,971	10,060,962	10,060,962	−	−
	49,386,070	54,419,285	54,419,285	−	−
Loans and receivables					
Receivable from customers:					
Corporate lending	69,323,969	71,898,694	−	−	71,898,694
Consumer lending	188,996,450	251,055,596	−	−	251,055,596
Unquoted debt securities	264,515	344,188	−	−	344,188
Other receivables	5,587,471	5,587,471	−	−	5,587,471
	264,172,405	328,885,949	−	−	328,885,949
Other financial assets	366,761	366,761	−	−	366,761

	Consolidated				
	December 31, 2019 (Audited)				
	Carrying Value	Total Fair Value	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Non-financial assets					
Investment properties	949,138	1,590,237	–	–	1,590,237
	₱336,470,032	₱406,857,890	₱75,910,630	₱104,313	₱330,842,947
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities**	₱128,004	₱128,004	₱–	₱128,004	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	88,757,787	88,757,787	–	–	88,757,787
Savings	98,027,632	98,027,632	–	–	98,027,632
Time	104,605,705	108,535,667	–	–	108,535,667
LTNCD	13,335,031	13,371,600	–	–	13,371,600
	304,726,155	308,692,686	–	–	308,692,686
Lease liability	3,302,981	3,507,684	–	–	3,507,684
Bills payable	30,949,753	30,949,753	–	–	30,949,753
Subordinated debt	6,219,011	6,134,819	–	–	6,134,819
	₱345,325,904	₱349,412,946	₱–	₱128,004	₱349,284,942

**Presented under 'Other Assets'*
***Presented under 'Other Liabilities'*

6. Segment Reporting

The Group's main operating businesses are organized and managed primarily according to the current organizational structure. Each segment represents a strategic business unit that caters to the Group's identified markets. The Group's business segments are:

(a) *Retail banking* - this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (OTC) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;

(b) *Corporate banking* - this segment handles lending and trade financing for both large corporations and middle market clients:

(c) *Consumer banking* - this segment primarily caters to loans for individuals; and

(d) *Treasury and Trust* - this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense. The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as of and for the Nine Months Ended September 30, 2020 (in millions):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	**4,724**	**744**	**11,397**	**(1)**	**3,253**	**20,117**
Intersegment	–	**764**	–	**401**	**(1,165)**	–
	4,724	**1,508**	**11,397**	**400**	**2,088**	**20,117**
Noninterest Income	**1,167**	**21**	**2,009**	**1,591**	**1,592**	**6,380**
Revenue - Net of Interest Expense	**5,891**	**1,529**	**13,406**	**1,992**	**3,680**	**26,498**
Noninterest Expense	**(5,034)**	**(744)**	**(11,173)**	**(741)**	**(2,017)**	**(19,709)**
Income Before Income Tax	**857**	**784**	**2,234**	**1,251**	**1,662**	**6,789**
Provision for Income Tax	**(402)**	**(197)**	**(74)**	**(309)**	**118**	**(864)**
Net Income for the Period	**456**	**588**	**2,160**	**942**	**1,780**	**5,925**
Statement of Financial Position						
Total Assets	**40,912**	**61,067**	**171,929**	**66,634**	**63,188**	**403,729**
Total Liabilities	**286,972**	**42,380**	**5,150**	**49,685**	**(35,630)**	**348,557**
Other Segment Information						
Depreciation and Amortization	**816**	**16**	**602**	**47**	**155**	**1,635**
Provision for Credit and Impairment Losses	**(1)**	**306**	**6,040**	**2**	**1,344**	**7,691**

Segment information of the Group as of and for the Nine Months Ended September 30, 2019 follow (in millions):

As of September 30, 2019	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	3,759	670	10,243	670	427	15,181
Intersegment	–	897	–	270	(1,166)	15,181

	3,759	1,566	10,243	80	(467)	15,181
Noninterest Income	1364	194	2,908	1,369	(206)	5,629
Revenue - Net of Interest Expense	5,123	1,760	13,152	1,448	(673)	20,811
Noninterest Expense	(5,597)	(577)	(7,439)	(643)	(823)	(15,079)
Income Before Income Tax	(474)	1,183	5,713	805	(1,496)	5,731
Provision for Income Tax	(168)	(296)	(1,032)	(203)	607	(1,092)
Net Income for the Period	(642)	887	4,681	603	(890)	4,639
Statement of Financial Position						
Total Assets	47,171	77,194	166,805	19,229	76,896	387,295
Total Liabilities	255,384	46,521	4,070	60,636	(26,636)	339,973
Other Segment Information						
Depreciation and Amortization	825	15	445	38	157	1,480
Provision for Credit and Impairment Losses	301	14	2,143	–	276	2,735

The 'Elimination Items' includes the Group's executive office and elimination items related to the Group's segment reporting framework.

Non-interest income consists of service charges, fees and commissions, gain on sale of assets, gain (loss) on asset foreclosure and dacion transactions, trading and securities gain (loss), gain on sale of investment securities at amortized cost, foreign exchange gain, trust income, share in net loss of a joint venture and miscellaneous income. The share in net loss of a joint venture has been presented as part of the elimination items in the Group's segment reporting framework. Non-interest expense consists of compensation and fringe benefits, taxes and licenses, depreciation and amortization, rent, amortization of intangible assets, provision for impairment and credit losses, and miscellaneous expenses.

7. Trading and Investment Securities

The Group and the Parent Company have the following trading and investment securities.

Financial assets at FVTPL
Financial assets at FVTPL of the Group and of the Parent Company consist of:

	30-Sep-20	31-Dec-19
	(Unaudited)	(Audited)
Government securities	**₱11,728,282**	₱16,768,178
Private bonds	**435,780**	62,188
Equity securities	**10,331**	10,343
	₱12,174,392	₱16,840,709

Financial assets at FVTOCI
Financial assets at FVTOCI of the Group and of the Parent Company consists of:

	30-Sep-20	31-Dec-19
	(Unaudited)	(Audited)
Government debt securities	**₱14,208,586**	₱4,650,635
Private bonds	**317,200**	-
Private equity securities	**1**	1
	₱14,525,787	₱4,650,636

Investment securities at amortized cost
Investment securities at amortized cost of the Group and of the Parent Company consist of:

	30-Sep-20	31-Dec-19
	(Unaudited)	(Audited)
Government securities	**₱28,119,984**	₱40,245,948
Private bonds	**7,515,217**	9,142,387
Allowance for impairment losses	**(4,062)**	(2,265)
	₱35,631,139	₱49,386,070

In the first quarter of 2020, the Parent Company sold investment securities classified as Investment securities at amortized cost with total carrying amount of ₱2.67 billion resulting in gain on sale of investment securities at amortized cost totaling to ₱1.83 billion. The sales were made as part of the Group's capital raising activities.

In aggregate, the sales in 2020 are considered to be more than insignificant but not more than infrequent as this was in response to an extraordinary event that prevented the Parent Company from raising capital through more conventional means. Further, the Parent Company assessed that the sales do not reflect a change in the Group's objectives for the hold-to-collect business model. Accordingly, the remaining investment securities in the affected hold-to-collect portfolio are continued to be measured at amortized cost.

8. Loans and Receivables

Loans and receivables consist of:

	Consolidated	
	30-Sep-20 (Unaudited)	31-Dec-19 (Audited)
Receivables from customers:		
Corporate lending*	**₱56,537,994**	₱70,659,248
Consumer lending	**185,603,265**	190,054,380
	242,141,259	260,713,628
Unamortized premium	**7,033,637**	8,391,667
	249,174,896	269,105,295
Unquoted debt securities:		
Private bonds	**338,960**	344,188

	Consolidated	
	30-Sep-20 (Unaudited)	31-Dec-19 (Audited)
	338,960	344,188
Other receivables:		
Accrued interest receivable	**7,215,306**	3,393,132
Accounts receivable	**2,010,226**	2,038,230
Sales contracts receivable	**156,873**	156,109
	9,382,405	5,587,471
	₱258,896,261	275,036,954
Allowance for credit and impairment losses	**(12,423,991)**	(7,389,216)
	₱246,472,270	₱267,647,738

**Include Corporate loans and Emerging enterprise loans*

Interest income on loans and receivables consist of:

	For the Nine Months Ended September 30	
	2020 (Unaudited)	2019 (Unaudited)
Receivables from customers	**₱21,541,352**	₱13,177,568
Unquoted debt securities	**947**	851
	₱21,542,299	₱13,178,419

9. Goodwill and Other Intangible Assets

Goodwill

Goodwill represents the excess of the acquisitions cost over the fair value arising from acquisition of (a) Ecology Savings Bank, Inc. (“ESBI”) in 2002; (b) American International Group, Inc. Philam Savings Bank (AIGPASB) Group in 2009; (c) EWRB in 2012; (d) Green Bank, Inc. (“GBI”) in 2014; and (e) Standard Chartered Bank (“SCB”) in 2016.

The carrying amounts of the resulting goodwill in the acquisitions above in the books of the Parent Company are as follows:

Acquisitions	**CGU**	**Parent**
SCB	Treasury and Trust; Consumer banking	₱2,560,513
AIG	Consumer Banking	769,042
GBI	Consumer Banking	373,996
ESBI	Retail Banking	150,212
		₱3,853,763

As of March 31, 2020, goodwill is not considered impaired, hence, no impairment has been recognized by the Bank.

Branch Licenses

Branch licenses of the Group amounting to ₱2.17 billion represents: one branch license acquired by the Parent Company from the BSP amounting to ₱0.20 million in 2015, 25 branch licenses acquired by the Parent Company from the BSP amounting to ₱505.20 million in 2014, 10 branch licenses acquired by the Parent Company from the BSP amounting to ₱214.80 million in 2013, 42 branch licenses acquired by the Parent Company from the BSP amounting to ₱822.00 million in 2012, and 46 branch licenses acquired by the Parent Company from the acquisition of GBI amounting to ₱625.40 million in 2011.

Customer Relationship and Core Deposits

The business combination between the Parent Company and AIGPASB Group in 2009 resulted in the acquisition of customer relationship and core deposits amounting to₱154.63 million and ₱40.43 million, respectively.

The business combination between the Parent Company and SCB in 2016 resulted in the acquisition of core deposits amounting to ₱64.70 million.

Capitalized Software

Capitalized software pertains to computer software licenses and programs acquired by the Group and the Parent Company for its banking operations.

10. Bonds Payable

This account consists of:

		Consolidated	
		(Unaudited)	(Audited)
	Face Value	**30-Sep-20**	31-Dec-19
Bonds Payable due 2023	₱3,700,000	**₱3,674,947**	–
	₱3,700,000	**₱3,674,947**	₱–

On February 10, 2020, EW issued 4.50% fixed-rate bonds with issue price at 100% face value. The Bonds will bear interest at the rate of 4.50% per annum from and including February 21, 2020 to but excluding: (a) February 21, 2023, such date being the maturity date (if the pre-termination option is not exercised); or (b) the pre-termination date (if the pre-termination option is exercised), and the interest will be payable quarterly in arrears at the end of each interest period on February 21, August 21 and November 21 of each year commencing on 2020.

Unless the 2023 Bonds are previously redeemed, the Bonds are repayable to the Bond Holders at 100% of their face value on the maturity date or February 21, 2023.

11. Subordinated Debt

This account consists of:

		Consolidated	
		(Unaudited)	(Audited)
	Face Value	**30-Sep-20**	31-Dec-19
Lower Tier 2 unsecured subordinated notes due 2025	₱5,000,000	**₱–**	₱4,979,340
Lower Tier 2 unsecured subordinated notes due 2027	1,250,000	**1,240,501**	1,239,671
	₱6,250,000	**₱1,240,501**	₱6,219,011

Lower Tier 2 unsecured subordinated notes due 2025
On July 4, 2014, the Parent Company issued 5.50% coupon rate Lower Tier 2 unsecured subordinated notes (the 2025 Notes) with par value of ₱5.00 billion, maturing on January 4, 2025, but callable on January 4, 2020. The 2025 Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781 (Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP.

Unless the 2025 Notes are previously redeemed, the 2025 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of January 4, 2025.

From and including the issue date to, but excluding the optional redemption date of January 4, 2020, the 2025 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on January 4, April 4, July 4, and October 4 of each year, which commenced on October 4, 2014. Unless the 2025 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year BVAL at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year BVAL at the pricing date of the initial tranche), commencing on January 4, 2020.

Lower Tier 2 unsecured subordinated notes due 2027
On February 20, 2017, EWRB issued a 5.50% coupon rate Lower Tier 2 unsecured subordinated note (the 2027 Notes) with par value of ₱1.25 billion, maturing on August 20, 2027 but callable on August 20, 2022.

Unless the 2027 Notes are previously redeemed, the 2027 Notes are repayable to the Noteholders at 100.00% of their face value or at par on the maturity date of August 20, 2027.

From and including the issue date to, but excluding the optional redemption date of August 20, 2022, the 2027 Notes bear interest at the rate of 5.50% per annum and shall be payable quarterly in arrears on February 20, May 20, August 20, and November 20 of each year, which commenced on February 20, 2017. Unless the 2027 Notes are previously redeemed, the interest rate will be reset at the equivalent of the prevailing 5-year BVAL at reset date plus initial spread (i.e., the difference between the initial interest rate and the prevailing 5-year BVAL at the pricing date of the initial tranche), commencing on August 20, 2022.

12. Leases

The Group leases several premises occupied by its head office and branches. Some leases are subject to annual escalation of 5.00% to 10.00% and for periods ranging from 5 to 15 years, renewable upon mutual agreement of both parties.

Adoption of PFRS 16
As discussed in Note 2, the Group adopted PFRS 16. The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Set out below is the carrying amount of lease liabilities and the movements during the nine months ended September 30, 2020:

Balances as at January 1, 2020	**₱3,302,981**
Add: Additions/adjustment	**710,531**
Interest expense	**181,533**
Less: Payments	**765,548**
Balances as of September 30, 2020	**₱3,429,498**

13. **Equity**

Capital Management
The Bank actively manages its capital to comply with regulatory requirements, enable growth targets, withstand plausible stress events and be at par with the Bank's peers. The primary objective of the Bank's capital management is to ensure that it maintains adequate capital to cover risks inherent to its banking activities without prejudice to optimizing shareholders' value.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based Capital Adequacy Ratio (CAR) of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (EW and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Capital Stock
Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	September 30, 2020	December 31, 2019	**September 30, 2020**	December 31, 2019
Authorized:				
Common stock – 10.00 par value	**4,500,000,000**	4,500,000,000		
Preferred stock – 10.00 par value	**500,000,000**	500,000,000		
Common stock issued and outstanding:				
Balance at the beginning of the year	**2,249,975,411**	2,249,975,411	**₱22,499,754**	₱22,499,754
Issuance of stock dividends	**-**	-	-	-
Balance at year end	**2,249,975,411**	2,249,975,411	**₱22,499,754**	₱22,499,754

With the approvals by the PSE of the Parent Company's application for listing and by the SEC for the Registration Statement both on March 14, 2012, a total of 245,316,200 common shares, with ₱10.00 par value per share, representing 21.70% of outstanding capital stock, were offered and subscribed through an initial public offering at ₱18.50 per share on April 20 to 26, 2012. The common shares comprise of (a) 141,056,800 new shares issued by the Parent Company by way of a primary offer, and (b) 104,259,400 existing shares offered by FDC, the selling shareholder, pursuant to a secondary offer. Subsequently, on September 5, 2012, 36,715,300 shares under the over-allotment option were exercised at a price of ₱18.50 per share that brought the subscriptions to 25.00% of the outstanding capital stock. The Parent Company's common shares were listed and commenced trading in the PSE on May 7, 2012.

The preferred shares are perpetual non-voting and non-convertible to common shares. The dividends of the preferred shares shall be non-cumulative and to be fixed by the BOD at an annual dividend rate prior to the date of issue.

The total proceeds raised by the Parent Company from the sale of primary offer shares amounted to ₱2.61 billion while the net proceeds (after deduction of direct costs related to equity issuance) amounted to ₱2.39 billion.

On February 1, 2018, the BSP approved the following amendments to the Parent Company's Articles of Incorporation, which were approved and confirmed by the Parent Company's BOD at its special meeting on July 13, 2017, to provide flexibility for future capital requirements:

a. Increase of the Parent Company's authorized capital stock from ₱20.00 billion to ₱50.00 billion consisting of 4.50 billion common shares with par value of ₱10.00 per share or a total par value of ₱45.00 billion and ₱0.50 billion preferred shares with par value of ₱10.00 per share or a total par value of ₱5.00 billion.

b. Declaration of 50.00% stock dividends equivalent to ₱7.50 billion from the Parent Company's unrestricted retained earnings as of December 31, 2016 to meet the required subscribed and paid amount of capital stock per Corporation Code after the increase in the authorized capital of the Parent Company. The increase in the Parent Company's authorized capital stock and stock dividend declaration were subsequently approved by BSP on September 29, 2017 and by SEC on February 28, 2018.

On April 16, 2018, a total of 749,991,801 common shares were listed at the PSE.

The portion of the Parent Company's retained earnings pertaining to the accumulated earnings of the subsidiaries amounting to ₱3.90 billion and ₱3.69 billion as of December 31, 2019 and December 31, 2018, respectively, are not available for dividend declaration until declared as dividends by subsidiaries.

In 2018, upon the full adoption of PFRS 9, the BSP through BSP Circular No. 1011 has required the appropriation for the difference of the 1% general loan loss provision over the computed ECL related to Stage 1 accounts. As of March 31, 2020, the amount of appropriation made in 2019 is still sufficient to cover the difference of the required BSP provision over the computed ECL related to Stage 1 accounts.

14. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel, and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,

- subsidiaries, joint ventures and associates and their respective subsidiaries, and

- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The Group's significant investors pertain to FDC, the immediate Parent Company of the Group, and FDC Forex Corporation (a company under common control of FDC).

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*. The Group provides banking services to its key management personnel.

Other related parties pertain to the Group's affiliates (subsidiaries of FDC).

The Group and the Parent Company had no outright purchases and outright sale of debt securities with significant shareholders and key management personnel in 2020 and 2019.

No specific provision and allowance for loan losses was recognized by the Group for loans to significant investors, key management personnel and other related parties in 2020 and 2019.

The Parent Company's subsidiaries have no transactions with related parties outside of the Group.

15. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

The Group has several loan related suits and claims that remain unsettled. It is not practicable to estimate the potential financial impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the Group's financial statements.

Commitments and Contingencies

The following is a summary of commitments and contingencies of the Parent Company at their peso-equivalent contractual amounts arising from off-balance sheet items:

	30-SEP-2020	31-DEC-2019
Unused credit line - credit cards	**₱69,212,272**	₱65,702,553
Trust department accounts (Note 28)	**34,719,890**	35,044,324
Outstanding guarantees	**6,113,182**	6,427,055
Spot exchange sold	**7,172,926**	5,721,431
Spot exchange bought	**7,169,208**	5,719,911
Unused commercial letters of credit	**2,099,813**	4,300,936
Forward exchange bought	**6,348,314**	3,229,841
Forward exchange sold	**6,326,105**	3,211,557
Treasurer/cashier/manager's checks	**372,548**	1,392,247
Financial futures sold	**1,222,226**	1,208,990
Inward bills for collection	**799,793**	639,754
Outward bills for collection	**664,512**	280,721
Late deposits/payments received	**5,140**	34,386
Items held for safekeeping	**1,031**	1,721
Others	**5,126**	4,677

16. **Financial Performance**

Earnings per share amounts were computed as follows:

		(Unaudited)	
		September 30, 2020	September 30, 2019
a.	Net income attributable to equity holders of the Parent Company	**₱5,924,711**	₱4,639,202
b.	Weighted average number of outstanding common shares by the Parent Company, including effect of stock dividends issued in 2018	**2,249,975**	2,249,975
c.	Basic and diluted EPS (a/d)	**₱2.63**	₱2.06

**The Bank has no potentially dilutive shares as of September 30, 2020 and 2019.*

17. **Subsequent Event**

<u>Ongoing COVID-19 outbreak</u>

On March 16, 2020, President Rodrigo R. Duterte issued Proclamation No. 299, declaring a state of calamity throughout the country and imposed the Enhanced Community Quarantine (ECQ) including Metro Manila beginning March 17, 2020. As of date of filing of this report, the ECQ has not yet been lifted in areas identified as high risk by the Philippine Government.

On March 25, 2020, President Rodrigo R. Duterte signed into law the *Bayanihan to Heal as One Act* (RA 11469), which grants the President special powers to address the COVID-19 outbreak in the country. The Group fully supported this law, providing its employees and customers with payment extension for loans with payment due dates during the ECQ cutting off the incurring penalty fees and interest charges. With the extension of payment terms and deterioration of credit quality of loan portfolios, this resulted to an increase of loan loss provision in the banking industry. As of March 31, 2020, the Group booked a significant loan loss provision amounting to ₱2.44 billion.

In addition, the Group also implemented the memorandum from the Congress of the Philippines, which was released last July 27, 2020, (Republic Act No. 11494), an act providing for COVID 19 response and recovery interventions and providing mechanisms to accelerate the recovery and bolster the resiliency of the Philippine economy, providing funds therefore and for other purposes which took effect last September 15, 2020.

The Group complied with the requirements on Section 4(uu) of the RA no. 11494 to implement a mandatory one-time 60-day grace period to all loans that are existing, current and outstanding falling due, or any part thereof, on or before December 31, 2020. The mandatory one-time 60-day grace period shall apply to each loan of individuals and entities with multiple loans.

Given the unpredictability of the situation, the Bank dedicated its contingency team and response management team to provide strategic operational support and to manage the new challenges in today's 'new normal'. The Group continues to serve its customers through the Business Continuity Plan by opening selected branches and deploying limited employees to take precautionary safety measures.

Considering the existing and anticipated effects of the outbreak, the Group continues to observe and monitor any developments. The impact with material uncertainties in the financial statements will be finalized for the year ending December 31, 2020.

EAST WEST BANKING CORPORATION
CONSOLIDATED FINANCIAL RATIOS
(As Required by SRC Rule 68.1)
For the period ended September 30, 2020

	September 30, 2020	September 30, 2019
Current ratio [1]	**58.8%**	56.2%
Solvency ratio [2]	**1.2**	1.1
Debt-to-equity [3]	**6.3**	7.2
Asset-to-equity [4]	**7.3**	8.2
Interest rate coverage ratio [5]	**295.6%**	187.1%
Return on Equity [6]	**15.1%**	13.8%
Return on Assets [7]	**2.0%**	1.6%
Net Interest Margin [8]	**8.3%**	6.6%
Cost- to- Income Ratio [9]	**45.0%**	58.7%

Notes:
(1) Current assets divided by current liabilities

(2) Total assets divided by total liabilities

(3) Total liabilities divided by total equity

(4) Total assets divided by total equity

(5) Income before interest and taxes divided by interest expense

(6) Net income divided by average total equity for the periods indicated.

(7) Net income divided by average total assets for the periods indicated.

(8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans).

(9) Other expenses (excl. provision for impairment and credit losses) divided by net interest and other income for the periods indicated.

EAST WEST BANKING CORPORATION
AGING OF LOANS AND RECEIVABLE
For the period ended September 30, 2020
(*Amounts in thousands of Philippine Peso)*

	TOTAL LOAN PORTFOLIO	CURRENT	PAST DUE	NON-PERFORMING LOANS			
			90 Days or less	91-180 Days	181 Days to 1 Year	More Than 1 Year	ITEMS IN LITIGATION
Loans and discounts	**249,174,896**	**219,475,385**	**11,236,866**	**7,971,893**	**2,930,466**	**7,436,560**	**123,727**
Accounts Receivable	**2,010,226**	**378,814**	**84,133**	**45,952**	**582,517**	**918,809**	**–**
Accrued Interest Receivable	**7,215,306**	**5,994,796**	**436,787**	**69,152**	**46,098**	**667,562**	**911**
Sales Contract Receivable	**156,873**	**136,299**	**–**	**–**	**–**	**20,574**	–
Unquoted Debt Securities	**338,960**	**–**	**338,960**	–	–	–	–
Allowance for Probable Losses	**(12,423,991)**	–	–	–	–	–	–
Loans and Receivables, net	**246,472,270**	**225,985,295**	**12,096,745**	**8,086,998**	**3,559,080**	**9,043,505**	**124,638**