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
107	April 22	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, 2022**
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	**₱-**

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, 2022:

Name of Stockholder	Number of Shares Held	Percent of Total of Number of Shared Issued
Filinvest Development Corporation	900,136,017	40.0%
FDC Forex Corporation	849,517,164	37.7%
PCD Nominee Corporation*	463,101,480	20.6%

**As of September 30, 2022, 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.

SIGNATURE

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:

Minda L. Cayabyab
Financial Controller

November 14, 2022

Annex 1

EAST WEST BANKING CORPORATION
SEC FORM 17 - Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2022

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

Financial Performance Highlights

EastWest Bank's (the Bank or EW) third quarter (Q3) 2022 financial performancecontinues to recover with net income at ₱1.5 billion, 49.1% higher than Q2 2022 and 16.6% better than Q3 2021's ₱1.3 billion. The recovery was driven by increases in loans and fixed income securities.

Year-to-date (YTD) net income was at ₱3.0 billion, ₱2.1 billion lower than the ₱5.1 billion in the same period last year, due to lower trading revenues by ₱2.3 billion. In 2021, trading gains were above normal levels due to the accommodative monetary policy that drove interest rates to very low levels. Core revenues, excluding trading income, was at ₱20.4 billion, 4% higher than 2021's ₱19.5 billion. Return on equity (ROE) was at 6.8%. Total assets ended at ₱405.2 billion, 2% higher than the previous year.

EW's net income increased by around ₱500 million in each of the last two quarters or from ₱500 million in Q1 to ₱1.0 billion in Q2 and ₱1.5 billion in Q3 as the Bank's efforts to rebuild its loans and fixed income portfolio continue. Total loans increased by 9.8% with consumer loans and business loans increasing by 11.3% and 5.7%, respectively. Fixed income securities was higher by 72%.

YTD interest expense, meanwhile, was steady, marginally higher by ₱38.9 million or 2% to ₱1.7 billion, in spite of stable deposit levels and higher time deposits interest rates and financial conditions tightening. This was due to better deposit mix as CASA increased by 11% to ₱256.6 billion and time deposits declined by 28% to ₱62.6 billion.

Net interest income (NII) stood at ₱17.1 billion, 5% or ₱741.3 million higher year on year (YoY), translating to a 50 basis point (bps) improvement in net interest margin (NIM) to 7.1%. On a quarterly basis, Q3's 2022 NII was 24.2% higher than Q3 2021 and 17.1% better than Q1 2022, reversing previous quarters' declines as the Bank's growth efforts continued to gain traction.

Fees and other income, meanwhile, were higher by ₱101.8 million YoY or 3% to ₱3.2 billion.

Operating expenses marginally declined by ₱120.1 million or 1% to ₱12.6 billion. Provisions for losses were higher by ₱1.4 billion YoY, or 65% to ₱3.5 billion. In 2021, the loan losses were underestimated in Q3 and had to catch up in Q4. The Bank believes that the current level of provisions are adequate as it shakes off the residual adverse impact of the pandemic.

Deposit level was steady at ₱319.1 billion. The Bank started to deploy its liquidity buffers, which were at higher than normal levels, to fund increases in loans and fixed income securities.

The Bank had deployed most of its liquidity, a significant amount in Q3 2021, to loans and fixed income securities. While CASA ratio improved to 80% from the previous year's 73%, moving forward, we expect deposit cost to go higher as the Bank starts to source new deposits and the impact of higher interest rates start to manifest. We see BSP continuing their efforts to control inflation that is expected to result in tighter financial conditions. We also expect some CASA depositors to shift to better yielding time deposits as opportunity costs of holding CASA increase. The industry's improving CASA ratio may start to stall. Loan rates are expected to increase as well, and should cover higher deposit costs for banks that have more variable rate assets.

EW's capital ratios improved to 13.9% and 13.1% for Capital Adequacy Ratio (CAR) and Common Equity Tier 1 (CET1) ratio, respectively. These were well above regulatory requirements. The Bank aims to maintain a CET1 ratio of 12 to 13 percent, which it deems appropriate given its business model.

Despite the global slowdown, the Philippine economy is still expected to meet its full year growth estimates of at least 7%. The Bank is watching macroeconomic developments and remains cautiously optimistic that the economic backdrop will continue to be supportive of its growth plans.

For the remainder of the year, the Bank is upgrading its forecast with total revenues, excluding trading, at ₱28.1 billion from the ₱25.1 billion in 2021. Net income for 2022 is expected at ₱4.5 billion with 4th quarter at ₱1.5 bilion or ₱6.0 billion on an annualized basis. While the income levels is expected to be flattish, unlike 2021 when quarterly income was on a decreasing trend due to the run-off in loans, in 2022 income is on the uptrend as the Bank started to recover lost loan volumes and has rebuilt its fixed income portfolios.

Financial Position

Loans

Total gross loans increased by 10% to ₱243.8 billion, mainly from consumer lending in line with the economy's recovery. Business loans grew by 6% or ₱3.5 billion to ₱63.9 billion. Consumer loans that account for 74% of the Bank's total loan portfolio, grew by 11% driven by the improvement in teacher's loans and credit cards, growing by 75% and 26%, respectively. The teacher's loans portfolio grew as private lending institutions were allowed by DepEd to start offering 5-year term loan to teachers (from 3 years previously). Meanwhile, credit cards portfolio growth was driven by consumer spending that drove retail and installment billings up. In contrast, auto, mortgage and personal loans declined by ₱11.3 billion combined from last year, as new loan releases were still not enough to cover for maturities. Auto and personal however, have started growing again towards the end of the second quarter, driven by demand and normalization of credit policies.

Securities

The Bank's total securities portfolio increased by 72% to ₱95.9 billion. Short-term securities of 90 days or less were at ₱32.7 billion. Hold-To-Collect (HTC) securities portfolio increased by ₱56.9 billion to ₱65.6 billion. The Bank continues to be cautious in investments and trading as it continues to weigh the post pandemic adjustments. The build-up however, is expected to supplement core income moving forward.

Deposits

Total deposits stood at ₱319.1 billion, flat from last year as CASA growth of 11% or ₱25.1 billion was enough for the bank's funding requirements. In contrast, time deposits declined by 28% or ₱24.5 billion from maturities of time deposits and ₱10.0 billion of long-term negotiable certificates of deposits (LTNCD) that the Bank chose to settle with its excess liquidity to avoid higher interest expenses. CASA ratio improved to 80%, from the previous year's 73%.

Capital

The Bank's Capital Adequacy Ratio (CAR) under Basel III, remained more than adequate at 13.9% as of September 30, 2022, while CET-1 ratio stood at 13.1%. The Bank's Tier 1 capital is composed entirely of common equity. Capital ratios continue to be above BSP standards.

Credit Quality

The Bank's total non-performing loans (NPL) to total gross loans, stood at 8.3% as of end-September, an improvement from last year's 11.3% due to the impact of the pandemic to borrowers in meeting their obligations and the overall decline of the Bank's total loan portfolio. Through its credit and impairment policy, the Bank ensures that the expected credit losses of its loan portfolio are adequately provisioned for and aligned with regulatory standards.

Result of Operations

Net Interest Income

Net interest income stood at ₱17.1 billion, an increase of 5% or ₱741.3 million from last year's ₱16.4 billion. The interest income increase of 4% or ₱780.2 million, was partly offset by the increase in interest expense of 2% or ₱38.9 million. Interest income on loans declined by 2% to ₱16.2 billion mainly from the drag on the lower auto loan portfolio and lower yields from the credit cards portfolio. Interest income on securities, however, doubled to ₱2.2 billion driven by accrual portfolio build-up.

Fees and Other Income excluding Trading Gains

Fees and other income, excluding trading gains, were at ₱3.2 billion which was 3% higher than last year's, mainly due to lower losses on sale of real and other properties acquired (ROPA).

Trading Income/(Loss)

Securities trading and foreign exchange activities posted a loss of ₱42.5 million compared to the ₱2.3 billion gain last year. Securities trading losses were at ₱479.6 million, significantly lower than the ₱1.2 billion gain from last year. The wide variance was a result of the base effect as trading income for 2021 was higher than usual due to the sale of hold-to-collect investment securities amounting to ₱1.9 billion. Also, in 2021, the trading gains were higher than the long-term average as low interest rates were maintained after the substantial reduction early in the pandemic. In 2022, interest rates moved higher resulting in the unusual trading losses. Foreign Exchange gains, meanwhile, ended at ₱437.1 million, from last year's ₱1.1 billion from lower gains on swap transactions.

Operating Expenses excluding Provisions for Losses

Total operating expenses, excluding provisions for losses, declined by 1% to ₱12.6 billion. Manpower expenses were lower by 2% at ₱4.4 billion, while other operating expenses remained flat at ₱8.2 billion.

Provisions for Losses

Provisions for losses, were higher by 65% to ₱3.5 billion from the ₱2.1 billion provisions booked last year. Provisions as a percentage of gross loans (or credit cost) was at 2.1%, compared to 1.2% in the same period last year.

Summary of Key Financials and Ratios

Balance Sheet (in Php billions)	**September 30, 2022**	**September 30, 2021**	**y/y Growth %**
Assets	405.2	399.1	2%
Consumer Loans	179.9	161.5	11%
Corporate Loans	63.9	60.5	6%
Low-Cost Deposits (CASA)	256.6	231.5	11%
High-Cost Deposits	62.6	87.1	-28%
Capital	59.7	59.5	0%

Profitability (in Php millions)	**September 30, 2022**	**September 30, 2021**	**y/y Growth %**
Net Interest Income	17,145.1	16,403.7	5%
Trading Income / (Loss)	(42.5)	2,264.0	-102%
Fees & Other Income	3,235.4	3,134.3	3%
Fees	*2,582.3*	*2,831.1*	*-9%*
Other Income	*653.8*	*303.2*	*116%*
Net Revenues	20,338.7	21,802.1	-7%
Operating Expenses	12,578.1	12,698.2	-1%
Provision for Losses	3,545.3	2,146.7	65%
Provision for Taxes	1,035.3	1,667.4	-38%
Net Income After Tax	3,031.7	5,098.4	-41%

Key Financial Ratios	**September 30, 2022**	**September 30, 2021**	**Variance b/(w)**
Return on Equity[1]	6.8%	11.8%	-5.0%
Return on Assets[2]	1.0%	1.7%	-0.7%
Net Interest Margin[3]	7.1%	6.5%	0.5%
Cost-to-Income Ratio[4]	61.8%	58.2%	-3.6%
Capital Adequacy Ratio[5]	13.9%	15.1%	-1.2%
Tier-1 Ratio[6]	13.1%	12.0%	-0.8%

[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*
[6] *Net tier-1 capital divided by total risk-weighted assets*

Business Segment Performance

EastWest's industry leading net interest margin (NIM) is a result of its higher proportion of higher yielding consumer loans. The Bank's NIM has improved to 7.1% as consumer loans continued to increase, coupled with the increase in high-yielding fixed income securities that the Bank has accumulated.

Consumer Lending was up by 11% YoY to ₱179.9 billion driven mainly by credit cards and salary loans. Corporate Banking, posted an increase of 6% to ₱63.9 billion.

Other Information:

As of September 30, 2022, EastWest Bank has a total of 392 stores, with 213 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 583, composed of 475 on-site ATMs and 108 off-site ATMs. Total headcount of EastWest is 5,679.

The Bank's subsidiaries have a total of 76 stores and 1,370 officers/staff, bringing the group store network total to 468 with 583 ATMs and a combined manpower complement of 7,049.

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, 2022, and 2021 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, 2022 vs. December 31, 2021**

- Cash and other cash items decreased by 12% to ₱6.8 billion due to the leveling-off of cash in vault from the usual year-end build-up.
- Due from BSP decreased by 45% to ₱32.6 billion due to lower deposits with the BSP in the Term Deposit Auction Facility (TDAF).
- Due from other banks decreased by 78% to ₱4.3 billion due to nostro placements in foreign currency accounts.
- Interbank loans receivable decreased by 80% to ₱3.6 billion as more funds were placed in better yielding liquid assets.
- Financial assets at fair value through profit and loss decreased by 37% to ₱2.6 billion due to movements in the Bank's proprietary trading portfolio.
- Financial assets at fair value through other comprehensive income decreased by 33% to ₱27.7 billion due to movements in the Bank's proprietary trading portfolio.
- Investment Securities at Amortized Cost increased by 215% to ₱65.6 billion in line with the Bank's balance sheet business models
- Investment in a Joint Venture increased by 66% to ₱1.0 billion due to additional capital investment offset by the proportionate share of the Bank in its net loss and other comprehensive income
- Property and equipment increased by 20% to ₱5.3 billion due to renewal of various lease contracts increasing value of Right-of-Use (ROU) assets.
- Investment properties decreased by 6% to ₱876.1 million due to sale of various foreclosed real estate mortgage properties.
- Bills and acceptance payables increased by ₱5.0 billion mainly from the higher volume of repo borrowings.
- Accrued taxes, interest, and other expenses increased by 20% to ₱3.6 billion mainly from the accrual of manpower expenses.
- Cashier's check and demand drafts payable increased by 33% to ₱975.1 million due to higher volume of checks issued.
- Income tax payable decreased by 17% to ₱117.3 million due to lower taxable income for the third quarter.
- Lease liability increased by 34% to ₱4.2 billion due to renewal of various lease contracts from ROU.
- Other liabilities increased by 34% to ₱8.8 billion mainly due to higher bills purchased.

II. **Income Statement – September 30, 2022 vs. September 30, 2021**

- Service charges, fees, and commissions decreased by 8% to ₱2.6 billion due to lower loan-related fees and charges.
- Securities trading losses were at ₱479.6 million due to mark-to-market losses on the Bank's trading portfolio.
- Foreign exchange income amounted to ₱437.1 million due to higher income on FX derivative transactions from increased volume including revaluation gains on the Bank's open FX position.
- Trust income increased by 22% to ₱88.1 million due to the growth in assets under management.
- Loss on sale of acquired assets and foreclosures ended lower at ₱38.0 million due to the lower losses given the decline in the number of auto accounts foreclosed for the period.

- Miscellaneous income ended at ₱603.0 million mainly from the recovery of written-off accounts.
- Taxes and licenses decreased by 10% to ₱1.4 billion on account of lower transaction taxes such as Gross Receipts Tax and Documentary Stamp Tax.
- Rent increased by 9% to ₱194.5 million due to additional warehouse leases for storage of auto foreclosed properties.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

Interim Consolidated Financial Statements

As of September 30, 2022 (Unaudited) and December 31, 2021 (Audited)
and for the quarters ended September 30, 2022 and September 30, 2021 (Unaudited)

Annex 2

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30, 2022 (*With Comparative Figures for December 31, 2021)*

(Amounts in Thousands of Philippine Peso)

	2022 (Unaudited)	2021 (Audited)
ASSETS		
Cash and Other Cash Items	**₱6,802,183**	₱7,705,729
Due from Bangko Sentral ng Pilipinas	**32,595,319**	58,842,366
Due from Other Banks	**4,288,128**	19,335,182
Interbank Loans Receivables and Securities Purchased Under Resale Agreements	**3,592,113**	17,518,984
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 7)	**2,553,004**	4,056,851
Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) (Note 7)	**27,708,223**	41,660,568
Investment Securities at Amortized Cost (Note 7)	**65,599,256**	20,815,382
Loans and Receivables (Note 8)	**239,614,372**	213,562,586
Investment in a Joint Venture	**1,019,359**	614,494
Property, Equipment and Right-of-Use Assets	**5,307,712**	4,422,355
Investment Properties	**876,066**	927,988
Deferred Tax Assets	**4,011,890**	4,160,134
Goodwill and Other Intangible Assets (Note 9)	**6,846,380**	6,795,374
Other Assets	**4,392,369**	4,343,837
TOTAL ASSETS	**₱405,206,374**	₱404,761,830
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**₱123,114,914**	₱120,321,094
Savings	**133,453,058**	124,667,522
Time	**60,112,438**	69,420,051
Long-term negotiable certificates of deposits	**2,446,301**	12,436,238
	319,126,711	326,844,905
Lease Liability (Note 12)	**4,149,913**	3,106,320
Bills and Acceptances Payable	**5,090,413**	98,150
Accrued Taxes, Interest and Other Expenses	**3,568,863**	2,975,265
Cashier's Checks and Demand Draft Payable	**975,070**	730,702
Bonds Payable (Note 10)	**3,695,702**	3,687,686
Subordinated Debt (Note 11)	**-**	1,241,964
Income Tax Payable	**117,336**	141,255
Other Liabilities	**8,793,755**	6,585,949
TOTAL LIABILITIES	**345,517,763**	345,412,196
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY		
Common Stock (Note 14)	**22,499,754**	22,499,754
Additional Paid-in Capital	**5,065,059**	5,065,059
Surplus Reserves	**946,618**	946,618
Surplus	**33,718,145**	31,585,667
Fair Value Reserves on Financial Assets at FVTOCI	**(1,938,524)**	(138,821)
Remeasurement Losses on Retirement Plans	**(209,929)**	(211,495)
Cumulative Translation Adjustment	**(392,512)**	(397,148)
TOTAL EQUITY	**59,688,611**	59,349,634
TOTAL LIABILITIES AND EQUITY	**₱405,206,374**	₱404,761,830

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, 2022 and 2021

(Amounts in Thousands of Philippine Peso)

	(Unaudited)			
	September 30			
	2022	**2021**	**2022**	2021
	For the quarter ended	For the quarter ended	**For the nine months ended**	For the nine months ended
INTEREST INCOME				
Loans and receivables	**₱5,667,296**	₱4,930,999	**₱16,194,707**	₱16,564,028
Financial assets at fair value through other comprehensive income and investment securities at amortized cost	**855,641**	259,583	**2,109,075**	844,011
Financial assets at fair value through profit or loss	**52,720**	107,969	**134,602**	279,519
Due from BSP and other banks and interbank loans receivables and securities purchased under resale agreement	**190,044**	156,755	**438,878**	409,485
	6,765,701	5,455,306	**18,877,262**	18,097,043
INTEREST EXPENSE				
Deposit liabilities	**537,430**	427,401	**1,380,835**	1,346,237
Bills and acceptances payable and SSURA, bonds payable, subordinated debt and other borrowings	**62,113**	59,510	**181,118**	178,604
Lease liability	**67,243**	57,817	**170,242**	168,455
	666,786	544,728	**1,732,195**	1,693,296
NET INTEREST INCOME	**6,098,915**	4,910,578	**17,145,067**	16,403,747
Service charges, fees and commissions	**1,255,985**	642,114	**2,582,317**	2,831,054
Trading and securities gain (loss)	**(58,933)**	(129,467)	**(479,615)**	(682,489)
Foreign exchange gain	**104,097**	835,462	**437,119**	1,096,109
Gain (loss) on sale of asset	**100,548**	(81,404)	**(90)**	(134,387)
Loss on asset foreclosure and dacion transactions	**7,764**	139,373	**(37,922)**	(415,913)
Trust income	**30,443**	25,187	**88,086**	72,296
Gain on sale of investment securities at amortized cost	**-**	-	**-**	1,850,425
Miscellaneous	**186,446**	464,553	**603,707**	781,240
TOTAL OPERATING INCOME	**7,725,265**	6,806,396	**20,338,669**	21,802,082
OPERATING EXPENSES				
Compensation and fringe benefits	**1,558,245**	1,415,899	**4,361,813**	4,435,082
Provision for impairment and credit losses	**1,437,318**	718,008	**3,545,292**	2,146,739
Taxes and licenses	**482,174**	464,570	**1,379,068**	1,538,624
Depreciation and amortization	**507,486**	628,781	**1,644,241**	1,638,570
Amortization of intangible assets	**49,672**	44,728	**131,650**	122,156
Rent	**54,209**	61,245	**194,465**	178,998
Miscellaneous	**1,680,718**	1,680,369	**4,866,827**	4,784,736
TOTAL OPERATING EXPENSES	**5,769,822**	5,013,600	**16,123,356**	14,844,905
INCOME BEFORE SHARE IN NET INCOME OF JOINT VENTURE	**1,955,443**	1,792,796	**4,215,313**	6,957,177
SHARE IN NET LOSS OF JOINT VENTURE	**(52,542)**	(73,474)	**(147,531)**	(191,407)
INCOME BEFORE INCOME TAX	**1,902,901**	1,719,322	**4,067,782**	6,765,770
PROVISION FOR INCOME TAX	**391,629**	424,133	**1,035,314**	1,667,381
NET INCOME	**₱1,511,272**	₱1,295,189	**₱3,032,468**	₱5,098,389
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**₱1,511,272**	₱1,295,189	**₱3,032,468**	₱5,098,389
Non-controlling interest	**-**	-	**-**	
NET INCOME	**₱1,511,272**	₱1,295,189	**₱3,032,468**	₱5,098,389
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱0.67**	₱0.58	**₱1.35**	₱2.27
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	**₱0.67**	₱0.58	**₱1.35**	₱2.27

See accompanying Notes to Unaudited Interim Financial Statements

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended September 30, 2022 and 2021

(Amounts in Thousands of Philippine Peso)

	(Unaudited)			
	September 30			
	2022	**2021**	**2022**	2021
	For the quarter ended	For the quarter ended	**For the nine months ended**	For the nine months ended
NET INCOME FOR THE PERIOD	**₱1,511,272**	₱1,295,189	**₱3,032,468**	₱5,098,389
OTHER COMPREHENSIVE INCOME				
Change in remeasurement loss of retirement liability	**209**	111	**1,566**	(1,162)
Change in fair value reserves on equity securities at FVTOCI	**7,382**	(459)	**(22,604)**	(14,361)
Change in fair value reserves on debt securities at FVTOCI	**(378,609)**	(46,014)	**(1,777,101)**	(154,776)
Cumulative translation adjustment	**(32,371)**	(732,047)	**4,636**	(896,958)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	**(403,389)**	(778,409)	**(1,793,503)**	(1,067,257)
TOTAL COMPREHENSIVE INCOME	**1,107,883**	516,780	**1,238,965**	4,031,132
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	**1,107,883**	516,780	**1,238,965**	4,031,132
Non-controlling interest	**-**	-	**-**	-
TOTAL COMPREHENSIVE INCOME	**₱1,107,883**	₱516,780	**₱1,238,965**	₱4,031,132

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, 2022 and 2021

(Amounts in Thousands of Philippines Peso)

	(Unaudited) Nine Months Ended September 30, 2022 — 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, 2022	₱22,499,754	₱5,065,059	₱946,618	₱31,585,667	(₱138,821)	(₱211,495)	(₱397,148)	₱59,349,634
Net Income	–	–	–	3,032,468				3,032,468
Other Comprehensive Income	–	–	–		(1,799,703)	1,566	4,636	(1,793,501)
Total comprehensive income (loss)	–	–	–	3,032,468	(1,799,703)	1,566	4,636	1,238,967
Dividends declared and paid	–	–	–	(899,990)	–	–	–	(899,990)
Balances at September 30, 2022	₱22,499,754	₱5,065,059	₱946,618	₱33,718,145	(₱1,938,524)	(₱209,929)	(₱392,512)	₱59,688,611

	(Unaudited)							
	Nine Months Ended September 30, 2021							
	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, 2021	₱22,499,754	₱5,065,059	₱936,635	₱27,080,614	₱189,936	(₱402,661)	₱113,207	₱55,482,544
Net Income	–	–	–	5,098,389	–	–	–	5,098,389
Other Comprehensive Income	–	–	–	–	(169,137)	(1,162)	(896,958)	(1,067,257)
Total comprehensive income (loss)	–	–	–	5,098,389	(169,137)	(1,162)	(896,958)	4,031,132
Balances at September 30, 2021	₱22,499,754	₱5,065,059	₱936,635	₱32,179,003	₱20,799	(₱403,823)	(₱783,751)	₱59,513,676

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2022 and 2021
(Amounts in Thousands of Philippine Peso)

	(Unaudited)	
	Nine Months Ended September 30	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱4,067,782**	₱6,765,771
Adjustments for:		
Provision for credit and impairment losses	**3,545,292**	2,146,739
Depreciation and amortization	**1,644,596**	1,638,570
Loss (gain) on sale and foreclosure of assets	**37,832**	550,300
Gain on sale of investment securities at amortized cost	**–**	(1,850,425)
Share in net loss of joint venture	**147,531**	191,407
Amortization of intangible assets	**131,650**	122,156
Amortization of debt issuance costs	**–**	878
Amortization of bond issuance cost	**8,016**	7,643
Amortization of premium on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**(6,712,876)**	(864,980)
Accretion of lease liability	**170,242**	168,455
Loss on modification of loans	–	(313,408)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss	**1,503,847**	(810,027)
Loans and receivables	**(33,598,458)**	15,500,746
Other assets	**(1,248,996)**	(2,056,221)
Increase (decrease) in:		
Deposit liabilities	**(7,718,194)**	(10,465,475)
Accrued taxes, interest and other expenses	**593,598**	675,047
Cashier's checks and demand draft payable	**244,368**	100,445
Other liabilities	**2,209,372**	599,866
Net cash generated from (used in) operations	**(34,974,397)**	12,107,487
Income taxes paid	**(1,033,648)**	(841,855)
Net cash provided in operating activities	**(36,008,045)**	11,265,632
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturity of:		
Investment securities at amortized cost	**117,421**	14,471,884
Financial Assets at fair value through OCI	**223,631,574**	134,829,514
Investment properties and other repossessed assets	**4,745,579**	2,968,484
Property and equipment	**12,425**	8,863
Acquisitions of:		
Investment securities at amortized cost	**(40,023,335)**	(99,335)
Financial asset at fair value through OCI	**(209,619,859)**	(143,614,636)
Property and equipment	**(247,137)**	(202,852)
Capitalized software	**(183,772)**	(87,402)
Additional capital infusion in a joint venture	**(575,000)**	(200,000)
Net cash used in investing activities	**(22,142,104)**	2,751,003
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills and acceptances payable	**4,992,264**	(3,359,847)
Payment on lease liability	**(824,679)**	(812,955)
Payment of subordinated debt	**(1,241,964)**	–
Dividends paid	**(899,990)**	–

Net cash provided by financing activities	**2,025,631**	**(4,172,802)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(56,124,518)**	**15,167,350**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**7,705,729**	₱8,148,882
Due from Bangko Sentral ng Pilipinas	**58,842,366**	48,892,706
Due from other banks	**19,335,182**	11,392,088
Interbank Loans Receivable	**17,518,984**	17,111,092
	₱103,402,261	₱85,544,768
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**6,802,183**	6,467,593
Due from Bangko Sentral ng Pilipinas	**32,595,319**	52,324,632
Due from other banks	**4,288,128**	20,669,793
Interbank Loans Receivable	**3,592,113**	21,250,099
	₱47,277,743	₱100,712,117
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱20,024,625**	₱18,611,433
Interest paid	**1,702,829**	1,738,165
Dividend received	**736**	663

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, 2022, 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 468 branches as of September 30, 2022, 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

Basis of Presentation

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 (accounting policy on Foreign Currency Transactions and Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

The functional currency of all subsidiaries and the joint venture is the Philippine peso.

Statement of Compliance

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. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 13.

Basis of Consolidation
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, 2022:

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

** Non-operational since 2017*

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

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continues to be consolidated until the date when control ceases. Control is achieved when 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 2021 that are Relevant to the Group

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

  The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
  - There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

The Group adopted the amendments beginning April 1, 2021. There is no significant impact to the Group.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The Group adopted the amendments beginning January 1, 2021. There is no significant impact to the Group

(b) Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Group's consolidated financial statements [unless otherwise indicated].

Effective beginning on or after January 1, 2022
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- Annual Improvements to PFRSs 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture*, *Taxation in fair value measurements*

Effective beginning on or after January 1, 2023
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

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*

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, and interbank loans receivables and SPURA with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents wherein withdrawals can be made to meet the Group's cash requirements as allowed by the BSP.

Foreign Currency Transactions and Translation

The financial statements are presented in PHP, which is the Group's functional and presentation currency. The book of accounts of RBU are maintained in PHP, while those of the FCDU are maintained in USD.

RBU

For financial reporting purposes, the foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses, at the prevailing exchange rate at the date of transaction. Foreign exchange differences arising from revaluation and translation of foreign currency-denominated assets and liabilities of the RBU are credited to or charged against operations in the period in which the rates change.

Non-monetary items that are measured in terms of historical cost are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As at the reporting date, the assets and liabilities of the FCDU of the Parent Company are translated into the Parent Company's presentation currency (the Philippine Peso) at PDS closing rate prevailing at the statement of financial position date, and their income and expenses are translated at Bankers Association of the Philippines (BAP) weighted average rate for the year. Exchange differences arising on translation are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income in the RBU books.

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 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 statement of financial position date.

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 adhered to.

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 (Note 5).

SPURA

Securities purchased under agreements to resell at a specified future date (‘reverse repos’) are not recognized in the balance sheet. The corresponding cash paid including accrued interest, is recognized in the balance sheet as SPURA. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date, i.e., the date that an asset is delivered to or by the Group. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Group, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Group. Securities transactions and related commission income and expense are recorded also on a settlement date basis. Deposits, amounts due to banks and customers, and loans and receivables are recognized when cash is received by the Group or advanced to the borrowers.

Derivatives are recognized on trade date, i.e., the date that the Group becomes a party to the contractual provisions of the instrument. Trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

Initial recognition of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing instruments, as described below. Financial instruments are initially measured at their fair value, except in the case of financial assets and financial liabilities recorded at FVTPL, transaction cost are added in, or subtracted from this amount. When the fair value of financial instrument at initial recognition differs from the transaction price, the Group accounts for Day 1 profit or loss, as described below.

‘Day 1’ Difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a ‘Day 1’ difference) in the statement of income. In cases where the transaction price used is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the ‘Day 1’ difference amount.

Financial Instruments - Classification, Reclassification and Subsequent Measurement

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

Contractual cash flow characteristics test
The Group assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test. Principal, for the purpose of this test, is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than *de minimis* exposure to risks or volatility in the contractual cash flows that are unrelated to a basis lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Business model assessment
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-on-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:
- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel
- The risks that affect the performance of the business model, and the financial assets held within that business model) and in particular, the way those risks are managed
- How managers of the business are compensated
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets at amortized cost
Financial assets are measured at amortized cost if both of the following conditions are met:
- the contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding; and
- the asset is held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method less any allowance for credit losses, with the calculated interest recognized as ‘Interest income in the statement of income.

The Group’s financial assets at amortized cost are presented in the statement of financial positions as ‘Due from BSP’, ‘Due from other banks’, ‘Interbank loans receivables and SPURA’, ‘Investment securities at amortized cost’, ‘Loans and receivables and other financial assets (i.e., security deposits, downpayment/advance payments to suppliers and returned cash and other cash items) under ‘Other assets’.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch that would arise had the financial asset been measured at amortized cost.

Financial assets at FVTOCI
Financial assets at FVTOCI include debt and equity securities.

Debt securities at FVTOCI
Debt securities at FVTOCI are those that meet both of the following conditions:
- the contractual terms of the financial asset give rise to cash flows that are SPPI on the outstanding principal amount;
- the asset is held within a business model whose objective is both to sell or hold the financial asset in order to both collect contractual cash flows.

Debt securities at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income as ‘Change in net unrealized gains (losses) on debt securities at FVTOCI’. The effective yield component and foreign exchange gains (losses) of debt securities at FVTOCI are reported on the statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to ‘Provision on credit and impairment losses’ in the statement of income.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to profit or loss.

Equity securities at FVTOCI
Equity securities designated as at FVTOCI are those that the Group made an irrevocable election to present in OCI the subsequent changes in fair value. The designation is made on instrument-by-instrument basis. Equity securities at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income as ‘Change in fair value reserves on equity securities at FVTOCI’. When the asset is disposed of, the cumulative gain or loss previously recognized in ‘Change in fair value reserves on equity securities at FVTOCI’ is not reclassified to profit or loss but is reclassified directly to ‘Surplus’. Equity securities at FVTOCI are not subject to impairment assessment.

Dividends earned on holding these equity instruments are recognized in the statement of income when the Group’s right to receive the dividends is established, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income under ‘Miscellaneous income’.

Financial assets at FVTPL
Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria, but the Group has chosen to designate as at FVTPL at initial recognition, are measured at fair value through profit or loss. Equity investments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at FVTOCI at initial recognition. Derivative assets classified as at FVTPL are those that are not designated under hedge accounting treatment.

The Group's financial assets at FVTPL include government securities, private bonds, equity securities held for trading purposes and derivative assets.

Financial assets at FVTPL are initially measured at fair value without considering transaction costs. Subsequently, financial assets at FVTPL are re-measured fair value, and fair value gains and losses on these instruments are recognized as 'Trading and securities gain' in the statement of income. Interest earned on these investments is reported in the statement of income under 'Interest income' while dividend income is reported in the statement of income under 'Miscellaneous income' when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on inputs provided by the BSP, Bureau of Treasury and investment bankers. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the PDS closing rate at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss. For financial assets classified as at FVTPL, the foreign exchange component is recognized in the statement of income. For equity financial assets designated as at FVTOCI, any foreign exchange component is recognized in OCI. For foreign currency-denominated debt instruments classified as at amortized cost and as at FVTOCI, the foreign exchange gains and losses are determined based on the amortized cost of the asset and are recognized in the statement of income.

Reclassification of financial assets
Subsequent to initial recognition, the Group may reclassify financial assets only if the objective of its business model for managing those financial assets changes.

The Group is required to reclassify the following financial assets:
- from amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met
- from FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instruments contractual cash flows are SPPI
- from amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted.

A change in the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the reporting period following the change in the business model.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or is designated as at FVTPL.

A financial liability is held for trading if:
- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Management may designate a financial liability at FVTPL upon initial recognition when the following criteria are met, and designation is determined on an instrument-by-instrument basis:
- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; or
- The liabilities are part of a group of financial liabilities which are managed, and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows, or it is clear, with little or no analysis, that it would not be separately recorded.

Financial liabilities at FVTPL are initially measured at fair value without considering transaction costs. Subsequently, financial liabilities at FVTPL are re-measured fair value, and fair value gains and losses on these instruments are recognized as ‘Trading and securities gain’ in the statement of income. Interest earned on these investments is reported in the statement of income under ‘Interest income’ while dividend income is reported in the statement of income under ‘Miscellaneous income’ when the right of payment has been established. Quoted market prices, when available, are used to determine the fair value of these financial instruments. If quoted market prices are not available, their fair values are estimated based on inputs provided by the BSP, Bureau of Treasury and investment bankers. For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated as at FVTPL, are classified as financial liabilities at amortized cost under deposit liabilities, bills and acceptances payable, subordinated debt or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities not qualified and not designated as FVTPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issuance and fees that are an integral part of the effective interest rate (EIR).

Impairment of Financial Assets

PFRS 9 requires the Group to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with irrevocable loan commitments and financial guarantee contracts.

Expected credit loss methodology

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and the time value of money. The objective of the new impairment model is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date. Lifetime ECLs are credit losses that result from all possible default events over the expected life of a financial instrument.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced SICR since initial recognition, evidenced by missed payments (for monthly amortizing exposures) and/or the significant increase in the likelihood of default. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of the financial asset. The ECL model requires that lifetime ECL be recognized for credit-impaired financial instruments.

For the movement of accounts to better stages (i.e. from Stage 2 or 3 to Stage 1 or 2):

- Financial instruments are moved to better stages when there is significant improvement to the credit risk such that the criteria for assessment of the better stage are met and there is consistent evidence of good credit behavior by the borrower.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at initial recognition and interest income is subsequently recognized based on a credit-adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

Definition of "default" and "cure"

For the calculation of ECL, the Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes: 1) 91 days past due for amortizing exposures; or 2) non-collection of full amounts at maturity date for non-amortizing loans or bullet-payment loans. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate likelihood of non-payment when an account is under litigation. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., cured) when it no longer meets any of the default criteria and there is sufficient evidence to support full collection thru payments received for at least 6 months.

Credit risk at initial recognition
The Group has an internal credit assessment process to determine the credit risk of exposures at initial recognition. The Group has separate models for its key portfolios in which the customers are rated using internal credit rating grades. The models incorporate both qualitative and quantitative information.

Significant increase in credit risk (SICR)
The Group monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Group assesses whether there has been a SICR since initial recognition. A set of defined empirical-based rules and expert judgment that discriminate good and bad credit make up the SICR model. For corporate loans and investments to debt-type instruments, accounts are considered to have a SICR if the equivalent Probability of default (PD) exceeds the Group's set threshold. The Group also considers an account to have a SICR if contractual payments are more than thirty (30) days past due or the account is considered "watchlist".

To capture the impact of the pandemic to the credit portfolios, the Bank performed the following: 1) updated the macroeconomic forecasts to reflect the downturn caused by the pandemic and the outlook on the recovery; and 2) identified borrower segments that are likely to experience income disruption due to the community quarantine restrictions and factor adjustments are applied to the expected loss parameters based on the estimated potential increase to defaults and/or difficulty in recoveries as determined through expert credit judgment.

Restructuring
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to create a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Accounts subjected to distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

Assessment of ECL on a collective basis
The Group calculates ECL either on an individual or collective basis. The Group performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar attributes (i.e., type of facility) are pooled together for calculating provisions based on the ECL models.

ECL parameters and methodologies
ECL is a function of the PD, Exposure at default (EAD) and Loss given default (LGD), with consideration for the expected timing of the loss, and is estimated by incorporating forward-looking economic information through the use of statistical techniques and/or experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or within the remaining life of the exposure for Stage 2. The PD for each individual instrument is modelled based on historical data and is adjusted for current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristics of the portfolio, behavior of the accounts and materiality of the portfolio as compared to the total portfolio.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts from irrevocable committed credit lines, EAD includes an estimate of any further amounts to be drawn at the time of default (i.e., credit conversion factor). LGD is the amount that may not be recovered in the event of default and is modelled based on historical net cash flow recoveries from collections and the sale of foreclosed assets.

Economic overlays
The Group incorporates economic overlays into its assessment of SICR and its measurement of ECL. A broad range of economic overlays are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates and interest rates. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect these, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Group's loans and receivables consists of different portfolios, such as auto, corporate, credit card receivables, mortgage loans, as well as other receivables (e.g., personal, branch, emerging enterprise lending, and Department of Education (DepEd) loans). In compliance with PFRS 9, the Group has developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

Undrawn Loan Commitments
Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2019, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and undrawn amounts of irrevocable loan commitments is recognized in 'Other liabilities'.

Financial guarantees
Financial guarantees are initially recognized at fair value. Subsequent to initial recognition, the Group's liability under each financial guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement and the amount of related ECL.

Restructured loans
Loan restructuring may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment and credit losses' in the statement of income.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired or transferred;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial assets are written off either partially or fully only when the Group has stopped pursuing the recovery. If a write-off is later recovered, any amounts formerly charged are credited to 'Recovery on charged-off assets' under 'Miscellaneous income' in the statements of income.

Modification of financial assets

In certain circumstances, the Group modifies the original terms and condition of a credit exposure to form a new loan agreement on payment schedule. The modification can be given on the borrower's or counterparty's current or expected financial difficulty. The modification may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of period payments and accrual of interest and charges.

The Group derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

If the modification does not result in cash flows that are substantially different, as set out above, then it does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Group records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

<u>SSURA</u>
Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as SSURA included in 'Bills and acceptances payable and SSURA' and is considered as a loan to the Group, reflecting the economic substance of such transaction.

<u>Offsetting Financial Instruments</u>
Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties including buildings, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs, and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives (EUL) of the property, equipment and ROU assets.

	Group	Parent
Buildings	25-40 years	30-40 years
Major furniture, fixtures and equipment	3-5 years	3-5 years
ROU asset	6-10 years	6-10 years

The EUL of the vaults of EWRB is 20 years. The cost of the leasehold improvements is amortized over the shorter of the covering lease term or the EUL of the improvements of 10 years.

The estimated useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset calculated as the difference between the net disposal proceeds and the carrying amount of the asset is included in the statement of income in the period the asset is derecognized.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are recorded as ‘Investment properties’ upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Investment properties comprise completed property and property under construction or re-development (land, buildings and malls) that are held to earn rentals or capital appreciation or both and that are not occupied by the Group. Investment properties also include right-of-use assets involving real properties that are subleased to other entities.

For those right-of-use assets that qualify as investment properties, i.e., those land and buildings that are subleased by the Group, these are classified under investment properties in accordance with paragraph 48 of PFRS 16. Consistent with the Group's policy regarding the measurement of investment properties, these assets are subsequently measured at cost less amortization and impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in the statement of income under 'Gain on sale of assets' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed 10 years for both buildings and condominium units.

Foreclosed properties of land or building are classified under Investment properties from foreclosure date.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Other repossessed assets

Other repossessed assets comprise of repossessed vehicles which are measured at cost less accumulated depreciation and impairment. Depreciation is calculated on a straight-line basis using the remaining useful life from the time of acquisition of the asset. The useful life of other repossessed assets is estimated to be five (5) years.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed in the statement of income.

When the Group acquires a business, it assesses the financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result. Adjustments to non-controlling interests arising from transactions that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

<u>Investments in Subsidiaries</u>
Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the equity method.

Under the equity method, an investment in subsidiary is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) remeasurement of retirement plans. Dividends received are treated as a reduction in the carrying amount of the investments. The statement of income reflects the share of the results of operations of the subsidiary. Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

<u>Investment in a Joint Venture</u>
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investment in a joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. The statement of income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of the investee is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of income and represents profit or loss after tax.

On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in a joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in a joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as 'Share in net income (loss) of joint venture' in the statement of income.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the aggregate of the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets, excluding goodwill and branch licenses, are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Intangible assets include goodwill, branch licenses, customer relationship, core deposits and capitalized software.

Goodwill
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Branch licenses
Branch licenses are determined to have indefinite useful lives. These are tested for impairment annually either individually or at the CGU level. Such intangible assets are not amortized. The useful life is reviewed annually to determine whether indefinite useful life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Customer relationship and core deposits
Customer relationship and core deposits are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposits are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the credit cards business is amortized on a straight-line basis over its useful life of 40 years while the customer relationship related to the auto loans business and core deposits are amortized on a straight-line basis over its useful life of 13 and 10 years, respectively (Note 13).

Capitalized software
Capitalized software acquired separately is measured at cost on initial recognition. Following initial recognition, capitalized software is carried at cost less accumulated amortization and any accumulated impairment losses. The capitalized software is amortized on a straight-line basis over its estimated useful life of 5-10 years.

Card Acquisition Costs
Card acquisition costs represent capitalized commissions paid to third-party brokers for successfully originated credit card accounts, which are amortized over two years, the average relationship life with customers.

Impairment of Nonfinancial Assets

An assessment is made at each statement of financial position date whether there is any indication of impairment of property and equipment, investment properties, other repossessed assets and intangible assets, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the said asset.

The following criteria are also applied in assessing impairment of specific assets:

Property and equipment, investment properties and other repossessed assets

The carrying values of the property and equipment and investment properties are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or CGUs are written down to their recoverable amounts.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Branch licenses

Branch licenses are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate.

Other intangible assets

Other intangible assets such as customer relationship, core deposits and capitalized software are assessed for impairment whenever there is an indication that they may be impaired.

Revenue Recognition
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The following specific recognition criteria must also be met before revenue is recognized:

Service charges and penalties
Service charges and penalties earned over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Group. Service charges and penalties are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised services to a customer and excludes amounts collected on behalf of third parties.

Customer loyalty programmes
Award credits under customer loyalty programmes are accounted for as a separately identifiable component of the transaction in which they are granted. The Parent Company allocates a portion of the consideration received from interchange from credit cards to the reward points. This allocation is based on the estimated stand-alone selling prices. The amount allocated to the customer loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote. Income generated from customer loyalty programmes is recognized as part of 'Service charges, fees and commissions' in the statement of income.

Interest income
Under PFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortized cost, interest rate derivatives for which hedge accounting is applied and the related amortization/recycling effect of hedge accounting. Interest income on interest bearing financial assets at FVOCI under PFRS 9 is also recorded using the EIR method. Interest expense is also calculated using the EIR method for all financial liabilities held at amortized cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Group recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in Interest revenue/expense calculated using the effective interest method.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognized at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

The IBOR reform Phase 2 amendments allow as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Commissions earned on credit cards
Commissions earned on credit cards are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by credit cardholders, collectible on an installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to Unearned discount and is shown as a deduction from Loans and receivables in the statement of financial position.

The unearned discount is taken to income over the installment terms and is computed using the effective interest method.

Gain on sale of assets
Income from sale of assets include any gains or losses on the retirement or disposal of property and equipment, investment properties, and other repossessed assets. The gain or loss arising from the derecognition is recognized in the statement of income in the year of retirement or disposal.

Other income
Income from sale of services or properties is recognized when control of such services or properties are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

<u>Expense Recognition</u>
Expenses are recognized in the statement of income when decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably.

Expenses are recognized in the statement of income:
- on the basis of a direct association between the costs incurred and the earning of specific items of income;
- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- immediately when the expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify, for recognition in the statement of financial position as an asset.

Expenses in the statement of income are presented using the nature of expense method. General and administrative expenses are cost attributable to administrative and other business activities of the Group.

<u>Leases</u>
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized adjusted by lease payments made at or before the commencement date and lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the depreciable assets. The depreciation expense is presented under 'Depreciation and Amortization' in the statement of income.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Impairment of Nonfinancial Assets.

Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases of ATM sites (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATM sites that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

<u>Retirement Cost</u>
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets (excluding net interest on defined benefit asset) and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. All remeasurements are recognized in other comprehensive income account. Remeasurement gains (losses) on retirement plan are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes the related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlement to annual leave is recognized as a liability when the employees render the services that increase their annual leave entitlement. The cost of accumulating annual leave is measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

<u>Provisions and Contingencies</u>
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as Interest expense in the statement of income.

Contingent liabilities are not recognized in the financial statements but are disclosed in the notes to financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to financial statements when an inflow of economic benefits is probable.

<u>Debt Issue Costs</u>
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVTPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Deferred taxes

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the regular income tax and unused Net Operating Loss Carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Current tax and deferred tax relating to items recognized directly in equity is recognized in other comprehensive income and not in the statement of income.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized, or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Equity

Capital stock is measured at par value for all shares issued. When the Group issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to Additional paid in capital account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Group, the shares shall be measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Direct cost incurred related to the equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to ‘Additional paid in capital’ account. If additional paid-in capital is not sufficient, the excess is charged against ‘Surplus’.

Surplus represents accumulated earnings of the Group less dividends declared.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when declared and approved by the Board of Directors (the Board or BOD) of the Parent Company and approved by the BSP. Dividends for the year that are declared and approved after the statement of financial position date, if any, are dealt with as an event after the financial reporting date and disclosed accordingly.

Earnings Per Share (EPS)

Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared and stock rights exercised in the current year, if any. The Group does not have dilutive potential common shares.

Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group's operations are organized according to the nature of products and services provided. Financial information on business segments is presented in Note 6.

Events after the Financial Reporting Date

Post year-end events that provide additional information about the Group's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes when material to the financial statements.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

3. Significant Accounting Judgments and Estimates

The preparation of the Group's financial statements in compliance with PFRS requires the management 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. Actual results may ultimately differ from these estimates.

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 2022 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, 'Substandard' grade for most of its consumer portfolio, and its non – tradable investment portfolio at 'BBB' composite rating.

Loan portfolio security profile is less than 50% secured given the proportion of consumer lending business. For the portfolio of products that normally require collateral, the Bank remains healthy at approximately 70% secured.
No credit concentration in size, borrower, and industry as defined by BSP and internal risk policies.

Market risk: Around 0.2% of the Parent Company's Qualifying Capital or around 2% of the market value of the trading position is the potential 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 upward trend in interest rate, the budgeted Net Interest Income and Net Income for 2022 will reduce by 5% and 24%, respectively.

On account of the expected upward trend in interest rate, the Group's Change in Economic Value of Equity shows that the capital will reduce by 11% given the Group's balance sheet structure.

Meanwhile, around 1% of the Parent Company's Qualifying Capital as well as the market value of the banking book position is the potential loss on the Parent Company's banking book in view of the potential adverse movements in interest rates.

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.

The Group has already fully covered the loss impact of the pandemic and further losses are expected to go back to normal levels following the recovery of the economy. The Group anticipates that potential losses will be proportionate with the expansion of loans as the Group regains its market share during the recovery years.

The Group's capital levels remain strong, standing at P50 billion 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, the Group's risk management policies remain generally the same as in 2021. The Group's 2021 audited financial statements discuss in detail its risk exposures and its related policies.

5. Fair Value Measurement

The Group has assets and liabilities in the consolidated and Parent Company statements of financial position that are measured at fair value on a recurring and non-recurring basis after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized on the statements of financial position at the end of the year. These include financial assets and liabilities at FVTPL and Financial assets at FVTOCI.

The methods and assumptions used by the Group in estimating the fair values of the financial instruments are:

Cash and other cash items, due from BSP and other banks, Interbank loans receivables and SPURA and accrued interest receivables – The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices.

Derivative instruments (presented as other financial assets and liabilities in 'Other assets' and 'Other liabilities') - Fair values of derivative instruments, mainly currency forwards and swaps and interest rate swaps, are valued using a valuation technique using market observable inputs. The valuation technique applied includes forward pricing and swap models using present value calculations. The models incorporate various inputs including foreign exchange spot and forward rates, yield curves of the respective currencies and interest rate curves prevailing at the statement of financial position date. For futures, these are valued considering the prevailing futures prices on the exchange as of the statement of financial position date.

Receivable from customers and unquoted debt securities classified as loans - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Accounts receivable, sales contract receivable and other financial assets included in other assets – quoted market prices are not readily available for these assets. These are reported at cost and are not significant in relation to the Group's total portfolio of securities

Investment properties – Fair value of investment properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made, and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

- **Location**: Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
- **Size**: Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
- **Time element**: An n adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data.
- **Discount**: Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Deposit liabilities (demand, savings and time) – For demand and savings deposit, carrying amounts approximate fair values considering that these are due and demandable. Fair value of time deposit liabilities is estimated using the discounted cash flow methodology using the Group's incremental borrowing rates for similar borrowing with maturities consistent with those for the liabilities being valued.

LTNCDs and subordinated debt - Fair values of LTNCD and subordinated debt are estimated using adjusted quoted market prices of comparable investments. The adjustments on market quoted prices are unobservable inputs.

Bonds Payable – Fair value of Bonds Payable are measured using the Present Value (PV) of the computed cash flows by the PV factor.

Lease Liabilities – Fair value of lease liabilities are measured using the Bloomberg valuation (Bval) rate as of the reporting period plus the spread which is the derived difference between the actual market rate and the BVal rate.

Bills and acceptances payable, cashier's checks and demand draft payable – Carrying amounts approximate fair values due to the short-term nature of the accounts.

Other financial liabilities included in 'Other liabilities' – Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Group's total portfolio.

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, 2022 and December 31, 2021 as follows:

	Consolidated				
	September 30, 2022 (Unaudited)				
		Fair Value			
	Carrying Value	Total	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	**₱2,496,376**	**₱2,496,376**	**₱2,496,376**	**₱–**	**₱–**
Private bonds	**46,276**	**46,276**	**46,276**	–	–
Equity securities	**10,352**	**10,352**	**10,352**	–	–
	2,553,004	**2,553,004**	**2,553,004**	–	–
Derivative assets*	**550,342**	**550,342**	**-**	**550,342**	–
Financial assets at FVTOCI:					
Government securities	**20,515,359**	**20,515,359**	**20,515,359**	–	–
Private bonds	**7,192,864**	**7,192,864**	**7,192,864**	–	–
Equity Securities	–	–	–	–	–
	27,708,223	**27,708,223**	**27,708,223**	**-**	–
	30,811,569	**30,811,569**	**30,261,227**	**550,342**	–

	Consolidated				
	September 30, 2022 (Unaudited)				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in active market (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	**₱61,809,253**	**₱61,818,506**	**₱61,818,506**	**₱–**	**₱–**
Private bonds	**3,790,003**	**3,790,818**	**3,790,818**	**–**	**–**
	65,599,256	**65,609,324**	**65,609,324**	**–**	**–**
Loans and receivables					
Receivable from customers:					
Corporate lending	**61,914,999**	**63,452,904**	**–**	**–**	**63,452,904**
Consumer lending	**170,433,258**	**191,450,443**	**–**	**–**	**191,450,443**
Unquoted debt securities	**–**	**80,636**	**–**	**–**	**80,636**
Other receivables	**7,266,115**	**8,565,175**	**–**	**–**	**8,565,175**
	239,614,372	**263,549,158**	**–**	**–**	**263,549,158**
Other financial assets	**512,554**	**512,554**	**–**	**–**	**512,554**
Non-financial assets					
Investment properties	**876,066**	**2,223,156**	**–**	**–**	**2,223,156**
	₱337,413,817	**₱362,705,761**	**₱95,870,551**	**₱550,342**	**₱266,284,868**
Financial liabilities					
Derivative liabilities**	**140,303**	**140,303**	**–**	**140,303**	**–**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	**123,114,914**	**123,114,914**	**–**	**–**	**123,114,914**
Savings	**133,453,058**	**133,453,058**	**–**	**–**	**133,453,058**
Time	**60,112,438**	**59,943,078**	**–**	**–**	**59,943,078**
LTNCD	**2,446,301**	**4,921,964**	**–**	**–**	**4,921,964**
	319,126,711	**321,433,014**	**–**	**–**	**321,433,014**
Lease liability	**4,149,913**	**3,949,649**	**–**	**–**	**3,949,649**
Bills and acceptances payable and SSURA	**5,090,413**	**5,090,413**	**–**	**–**	**5,090,413**
Bonds payable	**3,695,702**	**3,695,702**	**–**	**–**	**3,695,702**
Subordinated debt	**–**	**–**	**–**	**–**	**–**
	₱332,203,042	**₱334,309,081**	**₱ –**	**₱140,303**	**₱334,168,778**

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

	Consolidated				
	December 31, 2021 (Audited)				
		Fair Value			
	Carrying Value	Total	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	₱4,006,261	₱4,006,261	₱4,006,261	₱ –	₱–
Private bonds	40,257	40,257	40,257	–	–
Equity securities	10,333	10,333	10,333	–	–
	4,056,851	4,056,851	4,056,851	–	–
Derivative assets*	15,407	15,407	–	15,407	–
Financial assets at FVTOCI:					
Government securities	33,771,291	33,771,291	33,771,291	–	–
Private bonds	7,889,276	7,889,276	7,889,276	–	–
Equity Securities	1	1	1	–	–
	41,660,568	41,660,568	41,660,568	–	–
	45,732,826	45,732,826	45,717,419	15,407	

	Consolidated				
	December 31, 2021 (Audited)				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	₱18,976,453	₱18,987,980	₱18,987,980	₱–	₱–
Private bonds	1,838,929	1,839,022	1,839,022	–	–
	20,815,382	20,827,002	20,827,002	–	–
Loans and receivables					
Receivable from customers:					
Corporate lending	58,846,591	61,776,194	–	–	61,776,194
Consumer lending	145,922,140	176,353,593	–	–	176,353,593
Unquoted debt securities	258,218	332,115	–	–	332,115
Other receivables	8,535,637	10,039,729	–	–	10,039,729
	213,562,586	248,501,631	–	–	248,501,631
Other financial assets	486,322	486,322	–	–	486,322
Non-financial assets					
Investment properties	927,988	2,051,873	-	-	2,051,873
	₱281,525,104	₱317,599,654	₱66,544,421	₱15,407	₱251,039,826
Financial liabilities					
Derivative liabilities**	₱212,691	₱212,691	₱–	₱212,691	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	120,321,094	120,321,094	–	–	120,321,094
Savings	124,667,522	124,667,522	–	–	124,667,522
Time	69,420,051	69,538,087	–	–	69,538,087
LTNCD	12,436,238	15,203,855	–	–	15,203,855
	326,844,905	329,730,558	–	–	329,730,558
Lease liability	3,106,320	3,225,162	–	–	3,225,162
Bills and acceptances payable and SSURA	98,150	98,150	–	–	98,150
Bonds payable	3,687,686	3,687,686	–	–	3,687,686
Subordinated debt	1,241,964	1,322,667	–	–	1,322,667
	₱335,191,716	₱338,276,914	₱–	₱212,691	₱338,064,223

**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, 2022 (in thousands):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	**₱5,738,298**	**₱547,443**	**₱10,757,138**	**₱13,875**	**₱88,313**	**₱17,145,067**
Intersegment	**-**	**2,039**	**-**	**287,024**	**(289,063)**	**-**
	5,738,298	**549,482**	**10,757,138**	**300,900**	**(200,751)**	**17,145,067**
Noninterest Income	**1,041,160**	**195,590**	**2,103,044**	**30,965**	**(324,688)**	**3,046,071**
Revenue - Net of Interest Expense	**6,779,458**	**745,072**	**12,860,182**	**331,864**	**(525,438)**	**20,191,138**
Noninterest Expense	**(5,321,777)**	**(275,463)**	**(9,327,282)**	**(611,752)**	**(587,082)**	**(16,123,356)**
Income Before Income Tax	**1,457,681**	**469,609**	**3,532,900**	**(279,888)**	**(1,112,520)**	**4,067,782**
Provision for Income Tax	**(462,295)**	**(52,693)**	**(323,271)**	**79,022**	**(276,078)**	**(1,035,314)**
Net Income for the Period	**995,386**	**416,916**	**3,209,629**	**(200,866)**	**(1,388,598)**	**3,032,468**
Statement of Financial Position						
Total Assets	**₱42,736,821**	**₱21,000,460**	**₱208,876,346**	**₱44,323,388**	**₱88,269,359**	**₱405,206,374**
Total Liabilities	**308,624,764**	**723,683**	**58,690,934**	**31,569,380**	**(54,090,998)**	**345,517,763**
Other Segment Information						
Depreciation and Amortization	**822,704**	**55,507**	**747,978**	**33,132**	**116,571**	**1,775,892**
Provision for Credit and Impairment Losses	**192**	**(33,816)**	**3,470,461**	**5,823**	**102,632**	**3,545,292**

***With Intersegment representing only double-counted deposits**

Segment information of the Group as of and for the Nine Months Ended September 30, 2021 follow (in thousands):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	₱4,943,491	₱1,091,720	₱9,003,203	₱32,974	₱1,332,359	₱16,403,747
Intersegment	-	552,668	-	259,491	(812,158)	-
	4,943,491	1,644,387	9,003,203	292,465	520,201	16,403,747
Noninterest Income	860,886	149,575	2,129,454	462,107	1,604,905	5,206,927
Revenue - Net of Interest Expense	5,804,377	1,793,962	11,132,657	754,572	2,125,106	21,610,675
Noninterest Expense	(5,130,128)	(944,502)	(7,472,216)	(563,727)	(734,331)	(14,844,904)
Income Before Income Tax	674,249	849,460	3,660,441	190,845	1,390,775	6,765,770
Provision for Income Tax	(300,347)	(212,793)	(438,901)	(40,267)	(675,074)	(1,667,381)
Net Income for the Period	373,902	636,667	3,221,541	150,579	715,701	5,098,389
Statement of Financial Position						
Total Assets	39,235,938	65,175,728	142,042,906	116,095,914	36,568,175	399,118,663
Total Liabilities	289,310,772	53,249,206	5,828,970	36,995,119	(45,779,081)	339,604,986
Other Segment Information						
Depreciation and Amortization	791,677	16,251	765,365	41,033	146,399	1,760,725
Provision for Credit and Impairment Losses	140	477,190	1,615,627	8,883	44,899	2,146,739

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:

	30-Sep-22	31-Dec-21
	(Unaudited)	(Audited)
Financial assets at FVTPL	**₱2,553,004**	₱4,056,851
Financial assets at FVTOCI	**27,708,223**	41,660,568
Investment securities at amortized cost	**65,599,256**	20,815,382
	₱95,860,483	₱66,532,801

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

	30-Sep-22	31-Dec-21
	(Unaudited)	(Audited)
Government securities	**₱2,496,376**	₱4,006,261
Private bonds	**46,276**	40,257
Equity securities	**10,352**	10,333
	₱2,553,004	₱4,056,851

In the third quarter of 2022 and 2021, the yield rates ranges from 2.65% to 7.69% and 0.11% to 5.31% respectively.

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

	30-Sep-22	31-Dec-21
	(Unaudited)	(Audited)
Government debt securities	**₱20,515,359**	₱33,771,291
Private bonds	**7,192,864**	7,889,276
Private equity securities	**−**	1
	₱27,708,223	₱41,660,568

In the third quarter of 2022 and 2021, the interest rates of financial assets at FVTOCI range from 0.13% to 6.22% and 0.02% to 6.22% respectively.

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

	30-Sep-22	31-Dec-21
	(Unaudited)	(Audited)
Government securities	**₱61,818,506**	₱18,987,980
Private bonds	**3,790,818**	1,839,021
Carrying value, gross of allowance for impairment losses	**65,609,324**	20,827,001
Allowance for impairment losses	**(10,068)**	(11,619)

	₱65,599,256	₱20,815,382

Peso-denominated government bonds have effective interest rates ranging from 4.94% to 8.11% in third quarter of 2022 and 2021. Foreign currency-denominated government and private bonds have effective interest rates ranging from 2.76% to 7.76% in 2022 and 2021.

<u>Interest Income on Trading and Investment Securities</u>
This account consists of:

	30-Sep-22	**30-Sep-21**
	(Unaudited)	**(Unaudited)**
Financial assets at FVTPL	**₱134,602**	₱279,519
Financial assets at FVTOCI	**723,030**	425,578
Investment securities at amortized cost	**1,386,045**	418,433
	₱2,243,677	₱1,123,530

<u>Trading and Securities Gains (Losses)</u>
Trading and securities gains (losses) of the Group and of the Parent Company consists of:

	30-Sep-22	**30-Sep-21**
	(Unaudited)	**(Unaudited)**
Financial assets at FVTPL	**(₱401,523)**	(₱607,231)
Financial assets at FVTOCI	**(98,726)**	(77,696)
US Treasury futures (Note 5)	**20,634**	(69,684)
Interest rate swaps (Note 5)	**-**	72,122
	(₱479,615)	(₱682,489)

8. Loans and Receivables

Loans and receivables consist of:

	Consolidated	
	30-Sep-22 (Unaudited)	31-Dec-21 (Audited)
Receivables from customers:		
Corporate lending*	**₱64,041,480**	₱60,756,280
Consumer lending	**181,712,000**	152,434,684
	245,753,480	213,190,964
Unamortized premium	**1,959,463**	2,675,102
	243,794,017	215,866,066
Unquoted debt securities:		
Private bonds	**80,636**	332,115
	80,636	332,115
Other receivables:		
Accrued interest receivable	**6,169,069**	7,316,431
Accounts receivable	**2,268,100**	2,590,402
Sales contracts receivable	**128,007**	132,896
	8,565,176	10,039,729

	Consolidated	
	30-Sep-22 (Unaudited)	31-Dec-21 (Audited)
	252,439,829	226,237,910
Allowance for credit and impairment losses	**(12,825,457)**	(12,675,324)
	₱239,614,372	₱213,562,586

**Include Corporate loans, Branch loans and Emerging enterprise loans*

Interest income on loans and receivables consist of:

	For the Nine Months Ended September 30	
	2022 (Unaudited)	2021 (Unaudited)
Receivables from customers	**₱16,194,296**	₱16,563,363
Unquoted debt securities	**412**	664
	₱16,194,707	₱16,564,028

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**	**Consolidated**
SCB	Treasury and Trust; Consumer banking	₱2,560,513
AIG	Consumer Banking	769,042
GBI	Consumer Banking	373,996
ESBI	Retail Banking	173,690
		₱3,877,241

As of September 30, 2022, 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 bonds payable due in 2023 with a face value of ₱3.70 billion and carrying value of ₱3.69 billion as of September 30, 2022.

On February 10, 2020, the Parent Company issued 4.50% fixed-rate bonds with issue price at 100.00% 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 100.00% of their face value on the maturity date or February 21, 2023. As of September 30, 2022, bonds issuance cost amounted to ₱4.30 million. For the period ended September 30, 2022, the Group recognized interest expense on bonds payable amounting to ₱125.71 million.

Reserve requirement

Peso-denominated bonds are subject to reserves equivalent to 3.00% in 2022 and 2021. The Parent Company was in compliance with such requirements as of September 30, 2022.

11. Subordinated Debt

This account consists of:

		Consolidated	
		(Unaudited)	(Audited)
	Face Value	**30-Sep-22**	31-Dec-21
Lower Tier 2 unsecured subordinated notes due 2027	1,250,000	**₱–**	1,241,964
	₱1,250,000	**₱–**	₱1,241,964

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.

Shown below is the maturity analysis of the undiscounted lease payments as of September 30, 2022 and December 31, 2021, as required by PFRS 16:

	Consolidated	
	30-Sep-22	31-Dec-21
Within one year	**₱952,168**	₱981,887
After one year but not more than five years	**2,511,030**	1,896,232
More than five years	**1,826,741**	802,744
	₱5,289,939	₱3,680,863

Set out below is the carrying amount of lease liabilities and the movements during the nine months ended September 30, 2022:

Balance at beginning of the year	**₱3,106,320**
Additions/Adjustments	**1,698,030**
Payments and terminations	**(824,679)**
Accretion of interest	**170,242**
As of September 30, 2022	**₱4,149,913**

In the third quarter of 2022 and 2021, the interest expense on lease liabilities of the Group (included in ‘Interest expense’ in the statements of income) amounted to ₱170.24 million and ₱168.45 million, respectively. Rent expense from short-term leases and leases of low-value assets of the Group amounted to ₱194.46 million and ₱179.00 million in September 30, 2022 and 2021, respectively.

In the third quarter of 2022 and 2021, the Group's rental income amounted to ₱36.70 million, ₱ 36.76 million, respectively. As of September 30, 2022, and 2021, the Group has no contingent rental income.

13. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of financial position date:

	Consolidated					
	30-Sep-2022 (Unaudited)			31-Dec-2021 (Audited)		
	Less than 12 months	**Over 12 months**	**Total**	Less than 12 months	Over 12 months	Total
Financial assets:						
Cash and other cash items	**₱6,802,183**	**₱–**	**₱6,802,183**	₱7,705,729	₱–	₱7,705,729
Due from BSP	**32,595,319**	**–**	**32,595,319**	58,842,366	–	58,842,366
Due from other banks - gross	**4,289,110**	**–**	**4,289,110**	19,339,732	–	19,339,732
Interbank loans receivables and SPURA	**3,592,113**	**–**	**3,592,113**	17,518,984	–	17,518,984
Financial assets at FVTPL	**113,134**	**2,439,870**	**2,553,004**	4,056,851	–	4,056,851
Financial assets at FVTOCI	**15,258,436**	**14,164,552**	**29,422,987**	41,660,568	–	41,660,568
Investment securities at amortized cost - gross	**–**	**68,203,664**	**68,203,664**	102,573	20,724,428	20,827,001
Loans and receivables - gross	**135,743,003**	**118,656,288**	**254,399,291**	59,629,823	163,932,985	223,562,808
Other assets - gross	**637,281**	**335,759**	**973,040**	186,519	315,210	501,729
	199,030,579	**203,800,131**	**402,830,711**	209,043,145	184,972,623	394,015,768
Nonfinancial assets:						
Investment in a joint venture	**–**	**1,019,359**	**1,019,359**	–	614,494	614,494
Property and equipment – gross	**–**	**10,557,400**	**10,557,400**	–	9,760,223	9,760,223
Investment properties - gross	**–**	**1,373,872**	**1,373,872**	–	1,407,959	1,407,959
Deferred tax assets	**–**	**4,011,890**	**4,011,890**	–	4,160,134	4,160,134
Goodwill and other intangible assets - gross	**–**	**8,551,850**	**8,551,850**	–	8,439,087	8,439,087
Other assets - gross	**1,728,931**	**1,899,576**	**3,628,507**	927,525	3,517,579	4,445,104
	1,728,931	**27,413,947**	**29,142,878**	927,525	27,899,476	28,827,001
	200,759,510	**231,214,078**	**431,973,588**	209,970,670	212,872,099	422,842,769
Allowances for impairment and credit losses	–	**(13,137,958)**	**(13,137,958)**	–	(12,898,316)	(12,898,316)
Unamortized premium/discount	**(1,195,313)**	**(3,053,624)**	**(4,248,938)**	(223,379)	2,898,481	2,675,102
Accumulated depreciation and amortization	**(61,371)**	**(9,318,947)**	**(9,380,319)**	–	(7,857,725)	(7,857,725)
	₱199,502,825	**₱205,703,549**	**₱405,206,374**	₱209,747,291	₱195,014,539	₱404,761,830
Financial liabilities:						
Deposit liabilities	**₱316,088,833**	**₱3,037,878**	**₱319,126,711**	₱313,635,009	₱13,209,896	₱326,844,905
Bills and acceptances payable	**5,090,413**	**–**	**5,090,413**	98,150	–	98,150
Cashiers' checks and demand drafts payable	**975,070**	**–**	**975,070**	730,702	–	730,702
Subordinated debt	**–**	**–**	**–**	–	1,241,964	1,241,964
Bonds Payable	**–**	**3,695,702**	**3,695,702**	–	3,687,686	3,687,686
Accrued interest, taxes and other expenses	**2,810,342**	**–**	**2,810,342**	2,681,226	–	2,681,226
Lease liability	**775,043**	**3,374,870**	**4,149,913**	876,739	2,229,581	3,106,320
Other liabilities	**6,770,621**	**41,520**	**6,812,141**	4,526,168	41,029	4,567,197
	332,510,322	**10,149,970**	**342,660,292**	322,547,994	20,410,156	342,958,150
Nonfinancial liabilities:						
Income tax payable	**117,336**	–	**117,336**	141,255	–	141,255
Accrued interest, taxes and other expenses	**388,500**	**370,021**	**758,521**	294,039	–	294,039
Other liabilities	**730,650**	**1,250,964**	**1,981,614**	754,336	1,264,416	2,018,752
	1,236,486	**1,620,985**	**2,857,471**	1,189,630	1,264,416	2,454,046
	₱333,746,808	**₱11,770,955**	**₱345,517,763**	₱323,737,624	₱21,674,572	₱345,412,196

14. Equity

Capital Management
The Parent Company actively manages its capital to comply with regulatory requirements, enable growth targets, withstand plausible stress events and be at par with the Parent Company's peers. The primary objective of the Parent Company'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.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's '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 (Parent Company 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, 2022	December 31, 2021	**September 30, 2022**	December 31, 2021
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 ₱5.56 billion and ₱5.89 billion as of September 30, 2022 and December 31, 2021, respectively, are not available for dividend declaration until declared as dividends by subsidiaries.

Cash Dividend
Eastwest Bank have declared and paid cash dividends amounting to ₱899.99 million. This is equivalent to Php 0.40 per share, paid last May 31, 2022 to all stockholders of record as of May 11, 2022.

15. 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.

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 2022 and 2021.

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 2022 and 2021.

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

The amounts and the balances arising from significant related party transactions of the Group are as follows:

	September 30, 2022 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Significant investors:			
Loans receivable	**₱–**	**₱4,842,800**	Loans granted with a term of five years, interest of 4.75%, secured with deposit holdout, no impairment
Releases			
Collection			
Deposit liabilities	–	**1,981,101**	Earns interest at the respective bank deposit rates
Deposits	**4,697,946**		
Withdrawals	**4,336,926**		
Accrued interest receivable	–	**3,151**	Interest income accrued on outstanding loans receivable
Accrued expenses	–	**39,072**	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	–	**4,842,800**	Unused credit line (omnibus facility) with term of 10 months
Interest income	**19,169**	–	Interest income on loans receivable
Interest expense	**3,655**	–	Interest expense on deposit liabilities
Key management personnel:			
Loans receivable	**₱–**	**₱–**	Loans granted with a term of five years, interest of 9.82%, no impairment
Releases	–		
Collection	–		
Deposit liabilities	–	**375,314**	Earns interest at the respective bank deposit rates
Deposits	**490,416**	–	
Withdrawals	**442,312**	–	
Interest income	–	–	Interest income on loans receivable
Interest expense	–	**511**	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	**₱–**	**₱7,269,279**	Loans granted with terms ranging from five days to thirteen and a half years, interest ranging from 2.45% to 17.07%, secured by chattel and real estate mortgage, no impairment
Releases	**1,137,253**	–	
Collection	**1,023,091**	–	
Receivables purchased (booked under 'Loans Receivable')	–	**2,273,806**	Receivables purchased by the Parent Company from FLI
Accounts receivable	–	**13,518**	Receivables from EW Ageas Life which represent expenses shouldered by the Parent Company
Deposit liabilities	–	**2,542,927**	Earns interest at the respective bank deposit rates
Deposits	**36,451,192**	–	
Withdrawals	**44,113,101**	–	
Accounts payable	–	**56,239**	Collection of loan insurance on behalf of EW Ageas Life that remained unremitted
Guarantees and commitments	–	**7,158,806**	Unused credit lines
Accrued interest receivable	–	**36,110**	Interest income accrued on outstanding loans receivable
Interest income	–	**94,815**	Interest income on loans receivable
Interest expense	–	**4,245**	Interest expense on deposit liabilities

	September 30, 2022 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Service fee expense	−	−	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company
Rent expense	**61,242**	−	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

	December 31, 2021 (Audited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/Nature**
Significant investors:			
Loans receivable	₱-	₱4,842,800	Loans granted with a term of five years, interest of 4.75%, secured with deposit holdout, current and not impaired
Releases	4,842,800	-	
Collection	5,621,850	-	
Deposit liabilities	-	2,649,419	Earns interest at the respective bank deposit rates
Deposits	1,157,579	-	
Withdrawals	3,309,556	-	
Accrued interest receivable	-	57,981	Interest income accrued on outstanding loans receivable
Accrued expenses	-	10,220	Payable for management and professional fees paid by FDC (reimbursement for expenses)
Guarantees and commitments	-	4,843	Unused credit line (omnibus facility) with term of 10 months
Interest income	230,033	-	Interest income on loans receivable
Interest expense	3,930	-	Interest expense on deposit liabilities
Key management personnel:			
Deposit liabilities	-	491,773	Earns interest at the respective bank deposit rates
Deposits	106,970	-	
Withdrawals	144,684	-	
Interest income	-	-	Interest income on loans receivable
Interest expense	395	-	Interest expense on deposit liabilities
Other related parties:			
Loans receivable	-	6,931,292	Loans granted with terms ranging from six days to thirteen and a half years, interest ranging from 4.42% to 17.07%, secured by chattel and real estate mortgage, current and not impaired
Releases	619,635	-	
Collection	1,268,957	-	
Receivables purchased (booked under 'Loans Receivable')	-	2,283,451	Receivables purchased by the Parent Company from FLI (Note 9), current and not impaired
Releases	9,645		
Collections	109,630		
Accounts receivable	-	23,710	Receivables from EW Ageas Life which represent expenses shouldered by the Parent Company
Deposit liabilities	-	1,206,443	Earns interest at the respective bank deposit rates
Deposits	3,083,414	-	
Withdrawals	3,085,141	-	
Accounts payable	-	7,652	Collection of loan insurance on behalf of EW Ageas Life that remained unremitted
Guarantees and commitments	-	6,921	Unused credit lines
Accrued interest receivable	-	34,686	Interest income accrued on outstanding loans receivable
Interest income	388,316	-	Interest income on loans receivable
Interest expense	2,932	-	Interest expense on deposit liabilities
Commission fees	13,477	-	Commission fees received from EW Ageas Life
Service fee expense	83	-	Service fees paid to FLI for account servicing equivalent to 1.12% of loan amounts collected by FLI on behalf of the Parent Company (Note 9)
Rent expense	80,770	-	Rent expenses paid for lease transactions with other related parties such as Filinvest Asia Corporation, FAI and FLI

Parent Company Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions.

In addition to the transactions discussed above, the following are the transactions between the Parent Company and its subsidiaries that are recognized in the Parent Company's statements of financial position and statements of income and eliminated in the consolidated financial statements:

	September 30, 2022 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/ Nature**
Subsidiaries:			
Receivables purchased	–	**₱ 30,710,442**	Receivables purchased by the Parent Company from EWRB
Receivable sold	–	**443,577**	Employee loans sold by the Parent Company to EWRB
Accounts receivable	–	**209,542**	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Accounts receivable	–	**269,807**	Receivables from subsidiaries which represent expenses shouldered by Parent Company
Deposit liabilities	–	**701,424**	Earns interest at the respective bank deposit rates
Deposits	**55,383,286**		
Withdrawals	**55,266,757**		
Accounts payable		**166,546**	Cash reloading transactions between EWRB and the Parent Company
Service fee expense	**37,672**	–	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased and for collection of credit card payments
Service fee income	**742**	–	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected by the Parent Company on behalf of EWRB for the receivables sold
Commission expense	**2,582,317**	–	Commission expense paid by the Parent Company to QMIS
Rent income	**30,921**	–	Rent of office space leased to subsidiaries

	December 31, 2021 (Audited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Terms and Conditions/ Nature**
Subsidiaries:			
Receivables purchased	₱-	₱1,908,404	Receivables purchased by the Parent Company from EWRB (Note 9)
Acquisitions	2,466,091.19	-	
Collections	4,374,494.79	-	
Receivable sold	-	230,796	Employee loans sold by the Parent Company to EWRB (Note 9)
Accounts receivable	-	206,976	Amount collected by EWRB from borrowers on behalf of the Parent Company that remained unremitted and other related expenses shouldered by the Parent Company on behalf of the Subsidiaries
Accounts receivable	-	494,848	Receivables from subsidiaries which represent expenses shouldered by Parent Company
Deposit liabilities	-	657,746	Earns interest at the respective bank deposit rates
Deposits	1,005,512	-	
Withdrawals	1,331,964	-	
Accounts payable	-	117,639	Cash reloading transactions between EWRB and the Parent Company
Interest expense	34	-	Interest expense on deposits of EWRB and EWIB
Interest income	2,079	-	Interest income on loans receivable
Service fee expense	17,326	-	Service fees paid to EWRB for account servicing equivalent to 0.37% of loan amounts collected by EWRB on behalf of the Parent Company for the receivables purchased (Note 9) and for collection of credit card payments
Service fee income	881	-	Service fees paid by EWRB for account servicing equivalent to 0.37% of loan amounts collected

			by the Parent Company on behalf of EWRB for the receivables sold (Note 9)
Rent income	1,688	-	Rent of office space leased to subsidiaries

16. 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:

	2022	2021
Unused credit line - credit cards	**₱ 76,535,608**	₱58,536,798
Trust department accounts (Note 29)	**47,946,379**	44,336,050
Forward exchange sold	**13,550,456**	32,606,906
Broker Customer Securities Account	**34,670,000**	-
Forward exchange bought	**6,689,075**	20,978,809
Outstanding guarantees	**12,191,804**	8,493,434
Spot exchange sold	**7,542,919**	1,804,578
Spot exchange bought	**4,084,960**	4,247,072
Unused commercial letters of credit	**3,654,092**	4,299,666
Inward bills for collection	**673,432**	608,071
Treasurer/cashier/manager's checks	**140,437**	34,829
Outward bills for collection	**9,145**	42,498
Late deposits/payments received	**14,725**	29,219
Items held for safekeeping	**910**	1,219
Others	**122**	866

17. **Financial Performance**

Earnings per share amounts were computed as follows:

		(Unaudited)	
		September 30, 2022	September 30, 2021
a.	Net income attributable to equity holders of the Parent Company	**₱3,032,468**	₱5,098,389
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)	**₱1.35**	₱2.27

**The Bank has no potentially dilutive shares as of September 30, 2022 and 2021.*

18. **Subsequent Event**

There have been no events subsequent to September 30, 2022 that the Group and the Parent Company need to report.

EAST WEST BANKING CORPORATION
CONSOLIDATED FINANCIAL RATIOS
(As Required by SRC Rule 68.1)
For the period ended September 30, 2022 and 2021

	September 30, 2022	September 30, 2021
Current ratio [1]	**59.8%**	75.5%
Solvency ratio [2]	**1.2**	1.2
Debt-to-equity [3]	**5.8**	5.7
Asset-to-equity [4]	**6.8**	6.7
Interest rate coverage ratio [5]	**234.8%**	439.6%
Return on Equity [6]	**6.8%**	11.8%
Return on Assets [7]	**1.0%**	1.7%
Net Interest Margin [8]	**7.1%**	6.5%
Cost-to- Income Ratio [9]	**61.8%**	58.2%
Debt Ratio [10]	**85.3%**	85.1%

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.

(10) Total liabilities divided by total assets

EAST WEST BANKING CORPORATION
AGING OF LOANS AND RECEIVABLE
For the period ended September 30, 2022 and December 31, 2021
(*Amounts in thousands of Philippine Peso)*

September 30, 2022

	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	₱243,794,017	₱217,707,049	₱5,929,548	₱5,199,824	₱1,449,651	₱13,045,982	₱461,963
Accounts Receivable	2,268,100	585,310	16,945	242,304	461,429	962,112	–
Accrued Interest Receivable	6,169,069	4,898,316	379,093	89,009	12,067	789,325	1,259
Sales Contract Receivable	128,007	104,908	–	8,516	904	13,679	–
Unquoted Debt Securities	80,636	–	80,636	–	–	–	–
Allowance for Probable Losses	(12,825,457)	–	–	–	–	–	–
Loans and Receivables, net	239,614,372	223,295,583	6,406,222	5,539,653	1,924,051	14,811,098	463,222

December 31, 2021

	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	215,866,066	185,238,141	6,636,401	6,791,247	3,814,278	13,090,984	295,013
Accounts Receivable	2,590,402	838,226	218,302	198,659	284,069	1,051,146	-
Accrued Interest Receivable	7,316,431	6,637,873	606,813	10,306	5,895	52,217	3,326
Sales Contract Receivable	132,896	94,593	–	15,477	7,562	15,264	–
Unquoted Debt Securities	332,115	–	332,115	–	–	–	–
Allowance for Probable Losses	(12,675,324)	–	-	–	–	–	–
Loans and Receivables, net	213,562,586	192,808,833	7,793,631	7,015,689	4,111,804	14,209,611	298,339