

COVER SHEET

SEC Registration Number

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Company Name

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

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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
1 7 - Q	Corporate Finance Dept.	
No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
99	June 11	December 31

To be accomplished by SEC Personnel concerned

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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 : **March 31, 2020**
2. Commission Identification Number : **AS094-002733**
3. BIR Tax Identification Number : **003-921-057-000**
4. Exact name of issuer as specified in its charter : **EAST WEST BANKING
CORPORATION**
5. Province, country or other jurisdiction of
incorporation or organization : **PHILIPPINES**
6. Industry Classification Code : (SEC Use Only)
7. Address of issuer's principal office : **The Beaufort, 5th Avenue, Corner
23rd St. Fort Bonifacio Global City,
Taguig City
Postal Code 1634**
8. Issuer's telephone number, including area code : **+632 8575 3888 Extension 3304**
9. Former name, former address and former fiscal
year, if changed since last report : **N/A**

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

<u>Title of each Class</u>	<u>Number of shares of stock and amount of debt outstanding</u>
Common Shares (Php 10 par)	2,249,975,411 shares
Subordinated Debt	Php 1,239,943,544

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 March 31, 2020:

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	851,517,164	37.8%
PCD Nominee Corporation*	389,950,163	17.3%

**As of March 31, 2020, none among the stockholders under the PCD Nominee Corporation holds 5% of more of the Bank's securities.*

II. Pending Legal Proceedings

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

III. Board Resolutions

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

SIGNATURES

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

East West Banking Corporation
Issuer

By:



Antonio C. Moncupa, Jr.
President and CEO



Minda L. Cayabyab
Financial Controller

May 27, 2020

EAST WEST BANKING CORPORATION
SEC FORM 17 - Q
FOR THE PERIOD ENDED MARCH 31, 2020

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

Financial Performance Highlights

EastWest (the Bank or EW) registered a net income of ₱2.3 billion as of March 31, 2020. This was 75% or ₱964.1 million higher from the same period last year. The higher income in the first three months of 2020 was driven by better margins from its core lending and deposit-taking business and higher trading gains. Provisions, however, grew 2.8x to ₱2.4 billion as the Bank booked additional provisions to anticipate the impact of the pandemic on its loan portfolio. The Bank reported a Return on Equity (ROE) of 18%.

Net Interest Income (NII) increased by 42% or ₱1.9 billion to ₱6.6 billion. This is due to lower interest rates on deposits, improvement in deposit mix, and a shift in loan mix in favor of consumer loans. As a result, Net Interest Margin (NIM) ended at 8.1%, from to last year's 6.4%. In the first quarter of 2019, interest rates were significantly higher coming from 2018 due to higher inflation expectations and the resulting tight market liquidity. Price pressures abated and interest rates started to normalize beginning Q3 2019. As a result, interest expense was lower by 36% or ₱822.3 million in Q1 2020 even as deposits were 3% higher. Aside from lower interest rates, the lower interest expense was also due to much better deposit mix. CASA deposits increased by 38% to ₱197.6 billion while term deposits were 32% lower at ₱96.8 billion.

The Bank was also able to benefit from the drop in interest rates from its fixed income portfolio. In Q1, the Bank booked securities trading gains of ₱1.7 billion from ₱324.8 million the previous year. Total trading gains, including foreign exchange gains were at ₱1.8 billion, compared to previous year's ₱525.1 million.

Overall, net revenues of the Bank stood at ₱9.6 billion, higher by 45% or ₱3.0 billion from the ₱6.6 billion in 2019. Core income, excluding the securities trading and foreign exchange gains, increased by 28% to ₱7.8 billion from ₱6.1 billion the previous year.

Operating expenses, excluding provisions for losses, increased by 14% or ₱575.2 million to ₱4.6 billion. This was mainly driven by manpower expenses growing by ₱456.1 million to ₱1.6 billion, brought by increases in salaries and wages and higher bonus provisions.

Provisions for losses, meanwhile, increased to ₱2.4 billion or ₱1.5 billion higher than the previous year's. The higher provisions were in anticipation of loan losses from the COVID-19 disruption pandemic. While the impact of the pandemic is still uncertain, the Bank is continuously reviewing possible impairment of its loan portfolio. The Bank expects to continue booking higher provisions in the coming months.

EW's total Assets stood at ₱384.1 billion or 3% higher from the same period last year. Total loans increased by ₱15.1 billion or 6% higher to end at ₱261.4 billion. EW's Asset and Loan growth for the quarter were among its lowest in years, partly in consideration of the virus. With less assets to fund, deposits increased by only 3% to ₱294.3 billion. CASA, grew 38% to ₱197.6 billion, allowing the Bank to reduce its term deposits by 32% to ₱96.8 billion. As mentioned, the better deposit mix significantly contributed to the 173 bps improvement in margins. CASA ratio was at 67% compared to 50% the previous year. The Bank also issued ₱3.7 billion of 3-year Bonds to supplement its liquidity profile and partially offset the redemption of the ₱5.0 billion Unsecured Subordinated Debt (Tier 2) during the quarter.

Due to the difficult capital market conditions, the Bank planned to sell its fixed income investment portfolio in lieu of doing a stock rights offer. The Bank estimated that the core income coupled with trading gains would have raised sufficient capital to fund its growth plans. These plans have now changed given the economic disruption caused by COVID-19.

Financial Position

Loans

Total gross loans increased by 6% to ₱264.7 billion, with growth among its slowest in years, partly due to less aggressive lending in consideration of the virus.

Securities

The Bank's total securities portfolio increased by 26% to ₱54.1 billion. Hold-To-Collect (HTC) securities portfolio decreased by 9% to ₱36.0 billion as the Bank's business models changed driven by economic conditions. The Bank continues to be cautious in securities trading given the volatility in the market, with its trading portfolio accounting only for 17% of the total securities portfolio and only 2% of the Bank's total assets.

Deposits

Total deposits stood at ₱294.3 billion or 3% higher from the same period last year. This was solely driven by CASA, growing by 38% to ₱197.6 billion. In contrast, Time deposits including LTNCD's dropped by 32% to ₱96.8 billion as the growth in CASA and lower cost alternative funding sources allowed maturities to be paid-off.

Capital

The Bank's Capital Adequacy Ratio (CAR) under Basel III, has remained adequate at 12.5% as of March 31, 2020 while CET-1 ratio stood at 11.3%. The Bank's Tier 1 capital is composed entirely of common equity.

Capital ratios have remained within BSP standards even with the redemption of the ₱5.0 billion Unsecured Subordinated Debt (Tier 2) during the quarter.

Credit Quality

The Bank's total non-performing loans (NPL) to total gross loans, net of specific allowances stood at 2.7% on March 31, 2020. The Bank is currently assessing the risk profile of its loan portfolio given the pandemic and is continuously adjusting its credit and impairment policies to ensure that expected credit losses are adequately provisioned and aligned with regulatory standards.

Result of Operations

Revenues

Revenues rose by 48% to ₱9.5 billion from ₱6.4 billion in the same period last year. Securities and foreign exchange trading gains were at ₱1.7 billion compared to ₱525.1 million the previous year. Fees and other income, excluding trading gains, decreased by 18% to ₱1.2 billion. Net interest income stood at ₱6.6 billion, growing by 42% from last year's ₱4.7 billion. The 16% growth in interest income from earning assets was complemented by the 36% drop in interest expenses as cost of funding decreased sharply, reversing the challenges in 2019.

Fees and Other Income excluding Trading Gains

Fees and other income, excluding trading gains, was at ₱1.2 billion which was 18% lower than the ₱1.4 billion posted in the same period last year. The decrease primarily came from lower fees and commissions brought about by lower volumes from its loan portfolio. Other non-interest income, meanwhile, was lower by 40% or ₱43.6 million to ₱66.3 million, mostly due to lower miscellaneous income.

Trading Income/(Loss)

Securities trading and foreign exchange gains were at ₱1.8 billion compared to ₱525.1 million last year. Securities trading gains ended at ₱1.7 billion, higher by ₱1.4 billion from ₱324.8 million last year. Foreign Exchange gains ended at ₱60.2 million, lower by ₱140.1 million from ₱200.3 million last year.

Operating Expenses excluding Provisions for Losses

Total operating expenses, excluding provisions for losses, increased by 14% to ₱4.6 billion during the period. Compensation-related expenses increased by 39% to ₱1.6 billion brought by increases in salaries and wages and higher bonus provisions, while other operating expenses increased by 4% to ₱2.9 billion in the same period last year driven mainly by higher costs of doing business including gross receipts tax (GRT) and intensified marketing acquisition campaigns to generate more loans and retail deposits.

Provisions for Losses

Provisions for losses increased to ₱2.3 billion or ₱1.5 billion higher than previous year as the Bank decided it to be prudent in anticipation of the uncertainties brought by the COVID-19 pandemic. While the impact of the pandemic is yet to materialize given the extended Enhanced Community Quarantine (ECQ), the Bank is continuously reviewing its provisioning policies in relation to risks inherent in its predominantly consumer portfolio.

Summary of Key Financials and Ratios

Balance Sheet (in Php billions)	March 31, 2020	March 31, 2019	y/y Growth %
Assets	384.1	372.8	3%
Consumer Loans	201.9	177.5	14%
Corporate Loans	62.8	71.6	-12%
Low Cost Deposits (CASA)	197.6	143.1	38%
High Cost Deposits	96.8	143.1	-32%
Capital	51.2	43.9	16%

Profitability (in Php millions)	March 31, 2020	March 31, 2019	y/y Growth %
Net Interest Income	6,636.3	4,689.2	42%
Trading Income / (Loss)	1,779.2	525.1	239%
Fees & Other Income	1,158.5	1,407.6	-18%
Operating Expenses	4,553.0	3,977.8	14%
Provision for Losses	2,437.9	872.6	179%
Provision for Taxes	231.8	399.2	42%
Net Income After Tax	2,254.3	1,290.2	75%

Key Financial Ratios	March 31, 2020	March 31, 2019	Variance b/(w)
Return on Equity ¹	18.0%	11.9%	6.1%
Return on Assets ²	2.3%	1.4%	0.9%
Net Interest Margin ³	8.1%	6.4%	1.7%
Cost-to-Income Ratio ⁴	47.6%	60.1%	12.5%
Capital Adequacy Ratio ⁵	12.5%	12.6%	(0.1%)
Tier-1 Ratio	11.3%	9.9%	1.4%

¹ Net Income divided by average total equity

² Net Income divided by average total assets

³ Net Interest Income divided by average interest-earning assets

⁴ Operating expenses divided by net revenues

⁵ Total qualifying capital divided by total risk-weighted assets

Business Segment Performance

The Bank's recurring income base continues to expand from its focus on the high margin Consumer Lending/Retail Banking segments. Net interest margin (NIM) remains at an industry leading 8.1% as of reporting period. This recurring income is largely attributable to the growing customer base and market share of the Bank.

Consumer Lending grew by 14%, driven mainly by auto, mortgage and personal loans. Credit cards, which is the highest contributor to consumer lending's bottom-line, also grew by 16% to end at ₱36.2 billion.

Corporate Banking, however, posted a decline of 12% to ₱62.8 billion as some long-term (wholesale) loans matured and business loans were paid off.

Other Information:

As of March 31, 2020, EastWest Bank has a total of 391 stores, with 212 of these stores in Metro Manila. For the rest of the country, the Bank has 100 stores in other parts of Luzon, 40 branches in Visayas, and 39 stores in Mindanao. The total ATM network is 584, composed of 400 on-site ATMs and 184 off-site ATMs. Total headcount of EastWest is 6,250.

The Bank's subsidiaries have a total of 76 stores and 1,025 officers/staff, bringing the group store network total to 467 with 584 ATMs and a combined manpower complement of 7,275.

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 banks cash or liquidity position.

Significant Elements of Income or Loss

Significant elements of the consolidated net income of the Bank for the three (3) months ended March 31, 2020 and 2019 came from its continuing operations.

Seasonal Aspects

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

Vertical and Horizontal Analysis of Material Changes for the Period

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

I. Balance Sheet – March 31, 2020 vs. December 31, 2019

- Cash and cash equivalents decreased by 10% to ₱6.7 billion due to the leveling-off of cash in vault from the usual year-end build-up.
- Due from other banks increased by 55% to ₱5.3 billion due to higher level of placements and working balances with counterparty banks.
- Interbank loans receivable decreased by 57% to ₱1.2 billion as more funds were placed in higher-yielding liquid assets.
- Financial assets at fair value through profit and loss decreased by 45% to ₱9.3 billion due to movements in the Bank's proprietary trading portfolio.
- Financial assets at fair value through other comprehensive Income increased to ₱8.7 billion due to movements in the Bank's proprietary trading portfolio.
- Investment securities at amortized cost decreased by 27% to ₱36.0 billion due to the sale of Investment Securities at Amortized Cost which is still in line with the Bank's balance sheet business model.
- Investment in a joint venture account increased by 22% to ₱847.1 million due to the remeasurement of shares in joint venture offset by the proportionate share of the Bank in its net loss.
- Deferred tax assets increased by 11% to ₱3.1 billion on account of provisions set-up, net of write-offs during the period.

- Other assets decreased by 13% to ₱2.8 billion due to bancnet settlement.
- Bills and acceptance payables decreased by 39% to ₱19.0 billion mainly from lower volume of interbank borrowings and repo borrowings.
- Unsecured subordinated debt decreased by 80% to ₱1.2 billion due to redemption.
- Accrued taxes, interest and other expenses increased by 10% to ₱3.3 billion due to accrual of regulatory expenses given higher asset base.
- Cashier's checks and demand draft payable decreased by 7% to ₱1.2 billion on account of lower level of outstanding manager's check issued.
- Income tax payable increased by 78% to ₱1.1 billion due to outstanding payable for two quarters as the Bank availed the tax payment relief by BIR in 2020 where the payment due date was extended to June 2020.
- Other liabilities decreased by 18% to ₱5.8 billion due to normal timing differences on settlement of various miscellaneous liability accounts.

II. Income Statement – March 31, 2020 vs. March 31, 2019

- Interest income increased by 16% to ₱8.1 billion primarily due to an increase in lending activities, largely driven by growth in loans and investment securities.
- Interest expense decreased by 36% to ₱1.5 billion primarily due to decreasing interest rates and growth in low-cost deposits.
- Securities trading gains amounted to ₱1.7 billion, higher by ₱1.4 billion from the previous year.
- Foreign exchange gains, on the other hand, were lower by 70% to ₱60.2 million due to the mark-to-market valuations on outstanding third currency swap transactions last year and revaluation losses on outstanding FX position.
- Trust income increased by 13% to ₱18.5 million due to the growth in the Bank's assets under management.
- Loss on sale of assets and foreclosures higher by 26% ending at ₱70.1 million due to lower assets sold for the year.
- Miscellaneous income lower by 37% to ₱117.9 million due mainly to less recoveries from written off assets.
- Compensation and fringe benefits increased by 39% to ₱1.6 billion on account of normal annual increases to compensate for inflation and provisions for bonuses.
- Taxes and licenses decreased by 15% to ₱711.6 million on account of higher transaction taxes or GRT.
- Miscellaneous expenses increased by 15%, due to management and professional fees, other business-related expenses and intensified marketing acquisition campaigns.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

Interim Consolidated Financial Statements

As of March 31, 2020 (Unaudited) and December 31, 2019 (Audited)
and for the quarters ended March 31, 2020 and March 31, 2019 (Unaudited)

EAST WEST BANKING CORPORATION AND SUBSIDIARIES
INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of March 31, 2020 (With Comparative Figures for December 31, 2019)
(Amounts in Thousands of Philippine Peso)

	2020 (Unaudited)	2019 (Audited)
ASSETS		
Cash and Other Cash Items	P6,688,362	P7,454,625
Due from Bangko Sentral ng Pilipinas	35,791,898	34,287,302
Due from Other Banks	5,285,983	3,403,926
Interbank Loans Receivable	1,155,504	2,691,882
Financial Assets at Fair Value Through Profit or Loss (FVPL) (Note 7)	9,329,486	16,840,709
Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI) (Note 7)	8,727,373	4,650,636
Investment Securities at Amortized Cost (Note 7)	35,995,839	49,386,070
Loans and Receivables (Note 8)	261,361,609	267,647,738
Investment in a Joint Venture	847,139	694,114
Property and Equipment	5,226,965	5,436,761
Investment Properties	990,420	949,138
Deferred Tax Assets	3,129,566	2,821,217
Goodwill and Other Intangible Assets (Note 9)	6,851,216	6,897,500
Other Assets	2,754,340	3,162,671
TOTAL ASSETS	P384,135,700	P406,324,289
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	P88,556,484	P88,757,787
Savings	109,015,112	98,027,632
Time	83,438,902	104,605,705
Long-term negotiable certificates of deposits	13,338,345	13,335,031
	294,348,843	304,726,155
Lease Liability (Note 12)	3,247,097	3,302,981
Bills and Acceptances Payable	19,001,863	30,949,753
Accrued Taxes, Interest and Other Expenses	3,349,292	3,033,033
Cashier's Checks and Demand Draft Payable	1,227,184	1,320,236
Bonds Payable (Note 10)	3,670,060	-
Subordinated Debt (Note 11)	1,239,944	6,219,011
Income Tax Payable	1,058,768	595,851
Other Liabilities	5,820,350	7,109,936
TOTAL LIABILITIES	332,963,401	357,256,956
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF PARENT COMPANY		
Common Stock (Note 13)	22,499,754	22,499,754
Additional Paid-in Capital	5,065,059	5,065,059
Surplus Reserves	928,708	928,708
Surplus	22,775,682	20,580,707
Net unrealized Gains on FVTOCI	(106,534)	28,328
Remeasurement Losses on Retirement Plan	(124,788)	(124,788)
Cumulative Translation Adjustment	134,418	89,565
TOTAL EQUITY	51,172,299	49,067,333
TOTAL LIABILITIES AND EQUITY	P384,135,700	P406,324,289

See accompanying Notes to Unaudited Interim Financial Statements.

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENTS OF INCOME

For the periods ended March 31, 2020 and 2019

(Amounts in Thousands of Philippine Peso)

	(Unaudited)			
	March 31			
	2020	2019	2020	2019
	For the quarter ended	For the quarter ended	For the three months ended	For the three months ended
INTEREST INCOME				
Loans and receivables (Note 8)	₱7,356,202	₱6,457,444	₱7,356,202	₱6,457,444
Financial assets at FVTOCI and investment securities at amortized cost	553,721	485,852	553,721	485,852
Financial assets at fair value through profit or loss	167,119	-	167,119	-
Due from other banks and interbank loans receivable and securities purchased under resale agreements	17,151	26,098	17,151	26,098
	8,094,193	6,969,394	8,094,193	6,969,394
INTEREST EXPENSE				
Deposit liabilities	1,242,263	2,000,065	1,242,263	2,000,065
Subordinated debt, bonds, bills payable and others	156,974	204,742	156,974	204,742
Lease liability	58,696	75,425	58,696	75,425
	1,457,933	2,280,232	1,457,933	2,280,232
NET INTEREST INCOME	6,636,260	4,689,162	6,636,260	4,689,162
Gain on sale of investment securities at amortized cost	1,826,607	-	1,826,607	-
Service charges, fees and commissions	1,092,170	1,297,801	1,092,170	1,297,801
Trading and securities gain (loss)	(107,610)	324,758	(107,610)	324,758
Loss on sale and foreclosure of assets	(70,129)	(95,027)	(70,129)	(95,027)
Foreign exchange gain	60,215	200,341	60,215	200,341
Trust income	18,494	16,348	18,494	16,348
Miscellaneous	117,918	188,518	117,918	188,518
TOTAL OPERATING INCOME	9,573,925	6,621,901	9,573,925	6,621,901
OPERATING EXPENSES				
Provision for impairment and credit losses	2,437,851	872,557	2,437,851	872,557
Compensation and fringe benefits	1,618,614	1,162,499	1,618,614	1,162,499
Taxes and licenses	711,646	838,745	712,774	838,745
Depreciation and amortization	501,734	504,498	501,734	504,498
Amortization of Intangible Assets	54,983	-	54,983	-
Rent	30,584	48,085	30,584	48,085
Miscellaneous	1,635,461	1,424,016	1,634,333	1,424,016
TOTAL OPERATING EXPENSES	6,990,873	4,850,400	6,990,872	4,850,400
INCOME BEFORE SHARE IN NET INCOME OF JOINT VENTURE	2,583,052	1,771,501	2,583,052	1,771,501
SHARE IN NET LOSS OF JOINT VENTURE	(96,976)	(82,135)	(96,976)	(82,135)
INCOME BEFORE INCOME TAX	2,486,076	1,689,366	2,486,076	1,689,366
PROVISION FOR INCOME TAX	231,816	399,169	231,816	399,169
NET INCOME	₱2,254,260	₱1,290,197	₱2,254,260	₱1,290,197
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	2,254,260	1,290,197	2,254,260	1,290,197
Non-controlling interest	-	-	-	-
NET INCOME	₱ 2,254,260	₱1,290,197	₱ 2,254,260	₱1,290,197
Basic Earnings Per Share Attributable to Equity Holders of the Parent Company			₱1.00	₱0.57
Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company			₱1.00	₱0.57

See accompanying Notes to Unaudited Interim Financial Statements

EAST WEST BANKING CORPORATION AND SUBSIDIARIES

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

For the periods ended March 31, 2020 and 2019

(Amounts in Thousands of Philippine Peso)

	(Unaudited)			
	March 31			
	2020	2019	2020	2019
	For the	For the	For the three	For the three
	quarter ended	quarter ended	months ended	months ended
NET INCOME FOR THE PERIOD	₱2,254,260	₱1,290,197	₱2,254,260	₱1,290,197
OTHER COMPREHENSIVE INCOME				
Change in remeasurement loss of retirement liability	-	2,957	-	2,957
Change in fair value reserves on equity securities at FVTOCI	(5,870)		(5,870)	
Change in fair value reserves on debt securities at FVTOCI	(128,992)	6,363	(128,992)	6,363
Cumulative translation adjustment	44,853	(19,618)	44,853	(19,618)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	(90,009)	(10,298)	(90,009)	(10,298)
TOTAL COMPREHENSIVE INCOME	₱2,164,251	₱1,279,899	₱2,164,251	₱1,279,899
ATTRIBUTABLE TO:				
Equity holders of the Parent Company	₱2,164,251	₱1,279,899	₱2,164,251	₱1,279,899
Non-controlling interest	-	-	-	-
TOTAL COMPREHENSIVE INCOME	₱2,164,251	₱1,279,899	₱2,164,251	₱1,279,899

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 March 31, 2020 and 2019
(Amounts in Thousands of Philippines Peso)

	(Unaudited)							
	Quarter Ended March 31, 2020							
	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid-in Capital	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at FVTOCI	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2020	P22,499,754	P5,065,058	P928,708	P20,580,707	P28,328	(P124,788)	P89,565	P49,067,332
Adjustment	-	-	-	(59,285)	-	-	-	(59,285)
Balances at January 1, 2020, as restated	P22,499,754	P5,065,058	P928,708	20,521,422	P28,328	(P124,788)	P89,565	P49,008,048
Net Income	-	-	-	2,254,260	-	-	-	2,254,260
Other Comprehensive Income	-	-	-	-	(134,862)	-	44,853	(90,009)
Total comprehensive income (loss)	-	-	-	2,254,260	(134,862)	-	44,853	2,164,251
Balances at March 31, 2020	P22,499,754	P5,065,058	P928,708	P 22,775,682	(P106,534)	(P124,788)	P134,418	P51,172,299

Consolidated

Three Months Ended March 31, 2019

	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid-in Capital	Surplus Reserves	Surplus	Net Unrealized Gain on Financial Assets at FVTOCI	Remeasurement Gains (Losses) on Retirement Plan	Cumulative Translation Adjustment	Total Equity
Balances at January 1, 2019	₱22,499,754	₱5,065,059	₱921,655	₱14,353,812	(₱10,293)	(₱77,991)	(₱94,822)	₱42,657,174
Net Income				1,290,197				1,290,197
Other Comprehensive income (loss)					6,363	2,957	(19,618)	(10,298)
Total comprehensive income (loss)	-	-	-	1,290,197	6,363	2,957	(19,618)	1,279,899
Transfer to surplus reserves	-	-	20,034	(20,034)	-	-	-	-
Balances at March 31, 2019	₱22,499,754	₱5,065,059	₱941,689	₱15,623,975	(₱3,930)	(₱75,034)	(₱114,440)	₱43,937,073

EAST WEST BANKING CORPORATION AND SUBSIDIARIES**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three Months Ended March 31, 2020 and 2019***(Amounts in Thousands of Philippine Peso)*

	(Unaudited)	
	Three Months Ended March 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,486,076	₱1,689,366
Adjustments for:		
Provision for credit and impairment losses	2,437,851	872,557
Depreciation and amortization	501,735	504,499
Loss (gain) on sale and foreclosure of assets	70,129	97,493
Share in net loss of joint venture	(158,895)	(267,865)
Amortization of intangible assets	54,983	–
Amortization of debt issuance costs	(4,979,067)	–
Accretion of lease liability	58,695	–
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit or loss	7,511,223	884,257
Financial assets at fair value through other comprehensive income	(4,205,730)	252,718
Loans and receivables	3,066,785	(1,686,895)
Other assets	351,202	(110,773)
Increase (decrease) in:		
Deposit liabilities	(10,377,312)	(2,057,330)
Accounts payable and accrued expenses	316,259	292,354
Cashier's checks and demand draft payable	(93,052)	1,102,914
Other liabilities	(1,214,908)	(1,892,716)
Net cash generated from (used in) operations	(4,174,026)	(319,421)
Income taxes paid	(42,927)	(90,275)
Net cash provided in operating activities	(4,216,953)	(409,696)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturity of:		
Investment securities at amortized cost	13,390,231	–
Investment properties and other repossessed assets	457,114	572,769
Acquisitions of:		
Investment securities at amortized cost	–	(2,873,802)
Property and equipment	(11,309)	(128,334)
Capitalized software	(8,699)	(33,131)
Net cash used in investing activities	13,827,337	(2,462,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in bills and acceptances payable	(11,947,890)	2,669,507
Payment on lease liability	(248,542)	–
Proceeds from bonds payable	3,670,060	–
Net cash provided by financing activities	(8,526,372)	2,669,507
NET DECREASE IN CASH AND CASH EQUIVALENTS	₱1,084,012	(₱202,687)

(Forward)

	Three Months Ended March 31	
	2020	2019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	₱7,454,625	₱7,185,241
Due from Bangko Sentral ng Pilipinas	34,287,302	40,481,956
Due from other banks	3,403,926	10,233,240
Interbank Loans Receivable	2,691,882	5,862,670
	₱47,837,735	₱63,763,107
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	₱6,688,362	₱5,608,388
Due from Bangko Sentral ng Pilipinas	35,791,898	41,466,603
Due from other banks	5,285,983	15,062,679
Interbank Loans Receivable	1,155,504	1,422,750
	₱48,921,747	₱63,560,420
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱8,299,006	₱9,805,677
Interest paid	2,055,273	2,577,965

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 March 31, 2020, the Parent Company is effectively 77.85% owned by Filinvest Development Corporation (FDC). The Parent Company's ultimate parent company is A.L. Gotianun, Inc. The Parent Company's head office is located at East West Corporate Center, The Beaufort, 5th Avenue corner 23rd Street, Fort Bonifacio Global City, Taguig City.

Through its network of 466 branches as of March 31, 2020, the Bank and its subsidiaries (the Group) provides a wide range of financial services to consumer and corporate clients which includes deposit-taking, loan and trade finance, treasury, trust services, credit cards, cash management, custodial services, insurance services and leasing and finance.

2. Summary of Significant Accounting Policies**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 (see accounting policy on Foreign Currency Transactions and Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

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

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.

Basis of Consolidation

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

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

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

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

Adoption of New and Amended PFRS

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

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

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

Lessor accounting under PFRS 16 is substantially unchanged from the accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

On January 1, 2019, the Group adopted PFRS 16 following the modified retrospective approach. Under the modified retrospective approach, the Group did not restate prior-period comparative financial statements which remain to be reported under PAS 17. Therefore, some accounts in the comparative financial statements are not comparable to the information presented for 2019.

The Group elected to use the following transition practical expedients:

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

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

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

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

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

The interpretation specifically addresses the following:

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

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

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgement in identifying uncertainties over its income tax treatments. The Group determined, based on its tax compliance review, in consultation with its tax counsel, that it is probable that its income tax treatments (including those for the subsidiaries)

will be accepted by the taxation authorities. Accordingly, the interpretation did not have an impact on the consolidated and parent company financial statements of the Group.

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

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

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) *Standards Issued but not yet Effective*

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

Effective beginning on or after January 1, 2021

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

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

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

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

Deferred effectivity

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

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

3. Significant Accounting Judgments and Estimates

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

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

4. Financial Risk Management

The risk exposure of the Parent Company and its subsidiary (the Group) in credit, market, interest rate, and liquidity remains 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 first quarter of 2020 in the following areas are summarized below.

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

- Market risk: Around 1.8% of the Parent Company's Qualifying Capital or around 4% of the market value of the trading position is the potential expected loss on the Parent Company's trading book on account of potential adverse movements in interest rate and foreign exchange rate.
- Interest rate risk: At the consolidated basis of the banking book, maximum potential loss impact (for the rest of 2020) from adverse movement in interest rate is estimated to be around 9% and 33% of the budgeted net interest income and net income for 2020, respectively.
- Liquidity risk: There is no imminent liquidity risk as the Group remains to be generally liquid, particularly in the near term or within the one-year horizon, with sufficient sources of funding as and when the need arises. Regulatory and internal risk limits are duly complied with.

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

With capital level, after the above mentioned loss reserves, standing over P43 billion, the Group remains to be compliant with the regulatory minimum, in accordance with the supervisor's prescriptions, as well as cover for the above approximated risk exposures.

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

5. Fair Value Measurement

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

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

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

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

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

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

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

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

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

	Consolidated				
	March 31, 2020 (Unaudited)				
	Carrying Value	Total Fair Value	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
HFT investments:					
Government securities	P8,778,848	P8,778,848	P8,778,848	P-	P-
Private bonds	540,299	540,299	540,299	-	-
Equity securities	10,339	10,339	10,339	-	-
	9,329,486	9,329,486	9,329,486	-	-
Derivative assets	140,836	140,836		140,836	
Financial assets at FVTOCI					
Government securities	8,727,372	8,727,372	8,727,372	-	-
Equity securities	1	1	1	-	-
	8,727,373	8,727,373	8,727,373	-	-
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost:					
Government securities	29,049,081	30,067,742	30,067,742	-	-
Private bonds	6,946,758	6,952,834	6,952,834	-	-
	35,995,839	37,020,576	37,020,576	-	-
Loans and receivables					
Receivable from customers:					
Corporate lending	61,605,672	64,211,141	-	-	64,211,141
Consumer lending	194,529,630	238,946,209	-	-	238,946,209
Unquoted debt securities	264,520	344,239	-	-	344,239
Other Receivables	4,961,788	6,055,342	-	-	6,055,342
	261,361,610	309,556,930	-	-	309,556,930

Consolidated					
March 31, 2020 (Unaudited)					
	Carrying Value	Total Fair Value	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Non-financial assets					
Investment properties	990,420	1,428,642	–	–	1,428,642
Total assets	₱316,545,564	₱366,203,843	₱55,077,433	₱140,836	₱310,985,572
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities	₱139,072	₱139,072	₱–	₱139,072	₱–
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Demand	88,556,484	88,556,484	–	–	88,556,484
Savings	109,015,113	109,015,113	–	–	109,015,113
Time	83,438,902	84,481,435	–	–	84,481,435
LTNCD	13,338,345	15,633,697	–	–	15,633,697
	294,348,844	297,686,729	–	–	297,686,729
Lease liability	3,247,097	4,049,811	–	–	4,049,811
Bills Payable	19,001,863	19,001,863	–	–	19,001,863
Bonds Payable	3,670,060	3,708,709	–	–	3,708,709
Subordinated debt	1,239,944	1,316,684	–	–	1,316,684
Total liabilities	₱321,646,880	₱325,763,796	₱–	₱139,072	₱325,763,796

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

Consolidated					
December 31, 2019 (Audited)					
	Carrying Value	Total Fair Value	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investment properties	949,138	1,590,237	–	–	1,590,237
	P336,470,032	P406,857,890	P75,910,630	P104,313	P330,842,947

Liabilities measured at fair value

Financial liabilities

Derivative liabilities**	P128,004	P128,004	P–	P128,004	P–
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Liabilities for which fair values are disclosed

Financial liabilities

<u>Deposit liabilities</u>					
Demand	88,757,787	88,757,787	–	–	88,757,787
Savings	98,027,632	98,027,632	–	–	98,027,632
Time	104,605,705	108,535,667	–	–	108,535,667
LTNCD	13,335,031	13,371,600	–	–	13,371,600
	304,726,155	308,692,686	–	–	308,692,686
Lease liability	3,302,981	3,507,684	–	–	3,507,684
Bills payable	30,949,753	30,949,753	–	–	30,949,753
Subordinated debt	6,219,011	6,134,819	–	–	6,134,819
	P345,325,904	P349,412,946	P–	P128,004	P349,284,942

*Presented under 'Other Assets'

**Presented under 'Other Liabilities'

6. Segment Reporting

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

- (a) *Retail banking* - this segment mainly covers traditional branch banking products and services such as deposits, back-to-back/emerging market loans and other over-the-counter (OTC) transactions. It likewise caters to the needs of high net-worth clients for alternative investment channels. It includes entire transaction processing, service delivery and infrastructure consisting of the Group's network of branches, automated teller machines as well as its internet banking platform;
- (b) *Corporate banking* - this segment handles lending and trade financing for both large corporations and middle market clients;
- (c) *Consumer banking* - this segment primarily caters to loans for individuals; and
- (d) *Treasury and Trust* - this segment consists of Treasury and Trust operations of the Group. Treasury focuses on providing money market, trading and treasury services, as well as the management of the Group's funding operations through debt securities, placements and acceptances with other banks. Trust includes fund management, investment management services, custodianship, administration and collateral agency services, and stock and transfer agency services. In addition, the Parent Company through Trust, provides retail customers with alternative investment opportunities through its unit investment fund products.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the

segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

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

Segment information of the Group as of and for the three months ended March 31, 2020 (in millions):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	1,595	235	3,850	48	908	6,636
Intersegment	–	298	–	136	(434)	–
	1,595	533	3,850	184	474	6,636
Noninterest Income	436	(19)	757	1,778	(14)	2,938
Revenue - Net of Interest Expense	2,031	514	4,607	1,962	460	9,574
Noninterest Expense	(1,758)	(250)	(3,183)	(279)	(1,520)	(6,990)
Income Before Income Tax	273	264	1,424	1,683	(1,060)	2,584
(Forward)						
Provision for Income Tax	(139)	(66)	(154)	(421)	450	(330)
Net Income for the Period	134	198	1,270	1,262	(610)	2,254
Statement of Financial Position						
Total Assets	42,921	68,562	179,142	31,754	61,757	384,136
Total Liabilities	261,086	46,985	4,955	60,729	(40,792)	332,963
Other Segment Information						
Depreciation and Amortization	280	6	206	17	48	557
Provision for Credit and Impairment Losses	(1)	84	1,252	1	1,102	2,438

Segment information of the Group as of and for the three months ended March 31, 2019 follow (in millions):

	Retail Banking	Corporate Banking	Consumer Banking	Treasury & Trust	Executive & Elimination Items	Total Bankwide
Statement of Income						
Net Interest Income						
Third Party	1,188	126	3,306	(9)	77	4,688
Intersegment	–	259	–	44	(303)	–

	1,188	385	3,306	35	(226)	4,688
Noninterest Income	439	43	932	509	(72)	1,851
Revenue - Net of Interest Expense	1,627	428	4,238	544	(298)	6,539
Noninterest Expense	(1,845)	(161)	(2,517)	(212)	(115)	(4,850)
Income Before Income Tax	(218)	267	1,721	332	(413)	1,689
(Forward)						
Provision for Income Tax	(17)	(67)	(282)	(83)	50	(399)
Net Income for the Period	(235)	200	1,439	249	(363)	1,290
Statement of Financial Position						
Total Assets	44,911	78,497	155,824	26,222	67,321	372,774
Total Liabilities	249,351	48,115	3,830	49,146	(21,605)	328,837
Other Segment Information						
Depreciation and Amortization	121	4	131	7	242	504
Provision for Credit and Impairment Losses	1	(49)	899	7	16	873

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

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

7. Trading and Investment Securities

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

Financial assets at FVTPL

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

	31-Mar-20	31-Dec-19
	(Unaudited)	(Audited)
Government securities	₱8,778,848	₱16,768,178
Private bonds	540,299	62,188
Equity securities	10,339	10,343
	₱9,329,486	₱16,840,709

Financial assets at FVTOCI

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

	31-Mar-20	31-Dec-19
	(Unaudited)	(Audited)
Government debt securities	₱8,727,372	₱4,650,635
Private equity securities	1	1
	₱8,727,373	₱4,650,636

Investment securities at amortized cost

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

	31-Mar-20	31-Dec-19
	(Unaudited)	(Audited)
Government securities	₱29,050,229	₱40,245,948
Private bonds	6,946,758	9,142,387
Allowance for impairment losses	(1,147)	(2,265)
	₱35,995,839	₱49,386,070

In the first quarter of 2020, the Parent Company sold investment securities managed under the hold-to-collect (HTC) business model and classified as Investment securities at amortized cost with total carrying amount of ₱13.6 billion resulting in gain on sale of investment securities at amortized cost totaling to ₱1.83 billion. The sales were made as part of the Group's capital raising activities. The Parent Company plans to continue selling investment securities classified as Investment securities at amortized cost as part of its capital raising program and in response to the negative financial effects of the COVID-19 pandemic.

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

8. Loans and Receivables

Loans and receivables consist of:

	Consolidated	
	21-March-20	31-Dec-19
	(Unaudited)	(Audited)
Receivables from customers:		
Corporate lending*	₱62,795,005	₱70,659,248
Consumer lending	193,261,634	190,054,380
	256,056,639	260,713,628
Unamortized premium	8,646,096	8,391,667
	264,702,736	269,105,295
Unquoted debt securities:		

	Consolidated	
	21-March-20 (Unaudited)	31-Dec-19 (Audited)
Private bonds	344,239	344,188
	344,239	344,188
Other receivables:		
Accrued interest receivable	3,233,885	3,393,132
Accounts receivable	2,665,394	2,038,230
Sales contracts receivable	156,063	156,109
	6,055,342	5,587,471
	271,102,316	275,036,954
Allowance for credit and impairment losses	(9,740,707)	(7,389,216)
	₱261,361,609	₱267,647,738

**Include Corporate loans and Emerging enterprise loans*

Interest income on loans and receivables consist of:

	For the three months ended March 31	
	2020 (Unaudited)	2019 (Unaudited)
Receivables from customers	₱7,355,867	₱6,457,017
Unquoted debt securities	335	427
	₱7,356,202	₱6,457,444

9. Goodwill and Other Intangible Assets

Goodwill

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

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

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

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

Branch Licenses

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

Customer Relationship and Core Deposits

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

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

Capitalized Software

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

10. Bonds Payable

This account consists of:

	Face Value	Consolidated	
		(Unaudited) 31-Mar-20	(Audited) 31-Dec-19
Bonds Payable due 2023	₱3,700,000	₱3,670,060	–
	₱3,700,000	₱3,670,060	₱–

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

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

11. Subordinated Debt

This account consists of:

	Face Value	Consolidated	
		(Unaudited) 31-Mar-20	(Audited) 31-Dec-19
Lower Tier 2 unsecured subordinated notes due 2025	₱5,000,000	–	₱4,979,340
Lower Tier 2 unsecured subordinated notes due 2027	1,250,000	₱1,239,944	1,239,671
	₱6,250,000	₱1,239,944	₱6,219,011

Lower Tier 2 unsecured subordinated notes due 2025

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

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

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

Lower Tier 2 unsecured subordinated notes due 2027

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

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

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

12. Leases

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

Adoption of PFRS 16

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

Set out below is the carrying amount of lease liabilities and the movements during the quarter ended March 31, 2020:

Balances as at January 1, 2020	3,302,988
Additions/adjustment	133,956
Interest expense	58,695
Payments	(248,542)
Balances as of March 31, 2020	3,247,097

13. Equity

Capital Management

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

Regulatory Qualifying Capital

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

Capital Stock

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

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

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

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

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

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

- a. Increase of the Parent Company's authorized capital stock from ₱20.00 billion to ₱50.00 billion consisting of 4.50 billion common shares with par value of ₱10.00 per share or a total par value of ₱45.00 billion and ₱0.50 billion preferred shares with par value of ₱10.00 per share or a total par value of ₱5.00 billion.
- b. Declaration of 50.00% stock dividends equivalent to ₱7.50 billion from the Parent Company's unrestricted retained earnings as of December 31, 2016 to meet the required subscribed and paid amount of capital stock per Corporation Code after the increase in the authorized capital of the Parent Company. The increase in the Parent Company's authorized capital stock and stock dividend declaration were subsequently approved by BSP on September 29, 2017 and by SEC on February 28, 2018.

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

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

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

14. Related Party Transactions

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

- key management personnel, close family members of key management personnel, and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These

transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

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

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

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

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

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

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

15. Commitments and Contingent Liabilities

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

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

16. Financial Performance

Earnings per share amounts were computed as follows:

	(Unaudited)	
	March 2020	March 2019
a. Net income attributable to equity holders of the Parent Company	₱2,254,262	₱1,290,197
b. Weighted average number of outstanding common shares by the Parent Company, including effect of stock dividends issued in 2018	2,249,984	2,249,984
c. Basic and diluted EPS (a/d)	₱1.00	₱0.57

**The Bank has no potentially dilutive shares as of March 31, 2020 and 2019.*

17. Subsequent Event

Ongoing COVID-19 outbreak

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

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

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

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

**EAST WEST BANKING CORPORATION
CONSOLIDATED FINANCIAL RATIOS**

(As Required by SRC Rule 68.1)

For the period ended March 31, 2020

	March 31, 2020	March 31, 2019
Current ratio ⁽¹⁾	50.3%	62.0%
Solvency ratio ⁽²⁾	1.2	1.1
Debt-to-equity ⁽³⁾	6.5	7.5
Asset-to-equity ⁽⁴⁾	7.5	8.5
Interest rate coverage ratio ⁽⁵⁾	270.5%	174%
Return on Equity ⁽⁶⁾	18.0%	11.9%
Return on Assets ⁽⁷⁾	2.3%	1.4%
Net Interest Margin ⁽⁸⁾	8.1%	6.4%
Cost- to- Income Ratio ⁽⁹⁾	47.6%	60.8%

Notes:

(1) Current assets divided by current liabilities

(2) Total assets divided by total liabilities

(3) Total liabilities divided by total equity

(4) Total assets divided by total equity

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

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

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

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

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

EAST WEST BANKING CORPORATION
AGING OF LOANS AND RECEIVABLES
For the period ended March 31, 2020
(Amounts in thousands of Philippine Peso)

	TOTAL LOAN PORTFOLIO	CURRENT	PAST DUE		NON-PERFORMING LOANS		ITEMS IN LITIGATION
			90 Days or less	91-180 Days	181 Days to 1 Year	More Than 1 Year	
Loans and discounts	₱264,702,736	₱243,865,111	₱ 7,428,438	₱ 8,017,000	₱ 1,654,167	₱3,570,148	₱167,871
Accounts Receivable	2,665,394	-	678,077	-	171,130	1,816,187	-
Accrued Interest Receivable	3,233,885	2,388,858	112,406	29,588	28,256	671,552	3,225
Sales Contract Receivable	156,063	96,523	-	47,588	1,342	10,610	-
Unquoted Debt Securities	344,239	-	344,239	-	-	-	-
Allowance for Probable Losses	(9,740,707)						
Loans and Receivables, net	₱261,361,610	₱246,350,492	₱8,563,160	₱8,094,176	₱1,854,895	₱6,068,497	₱171,096