

February 19, 2019

PHILIPPINE STOCK EXCHANGE, INC.

Disclosure Department
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Attention: MS. JANET A. ENCARNACION
Head - Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.

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6766 Ayala Avenue cor Paseo de Roxas
Makati City

Attention: ATTY. JOSEPH B. EVANGELISTA
Head- Issuer Compliance and Disclosure Department

Gentlemen,

We are pleased to furnish your good office with a copy of China Bank's latest news release from PhilRatings, "China Bank Receives Highest Credit Rating".

For your information and guidance.

Thank you.

Very truly yours,



ALEXANDER C. ESCUCHA
Senior Vice President & Head
Investor & Corporate Relations Group

CHINA BANKING CORPORATION

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China Bank Receives Highest Credit Rating

China Banking Corporation (China Bank), one of the country's leading private universal banks (unibanks) with a strong franchise in the Chinese-Filipino market, received an issuer rating of **PRS Aaa (corp.)** from Philippine Rating Services Corporation (PhilRatings). As of September 30, 2018, China Bank was the country's sixth-largest bank based on assets, loans, and deposits. The Bank had 616 branches and 951 ATMs, as of September 30, 2018.

An issuer rating is an opinion on the general and overall creditworthiness of the issuer, evaluating its ability to meet all its financial obligations within a time horizon of one year. The focus is on financial strength and stability under normal and stressed conditions to be able to meet existing and prospective financial obligations.

A company rated **PRS Aaa (corp.)** has a **very strong** capacity to meet its financial commitments relative to that of other Philippine corporates. A **PRS Aaa (corp.)** is the highest corporate credit rating assigned on the PRS scale.

The rating takes into account China Bank's growth strategy, which supports expansion in scale, market reach, and product base, while keeping its solid franchise on its core market; synergies with its strong shareholder and experienced management; sound asset quality; improvement in funding profile; and the favorable outlook of the domestic banking industry.

The issuer credit rating assigned by PhilRatings is based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to China Bank and may change the rating at any time, should circumstances warrant a change.

China Bank's core banking franchise is anchored mainly on its 98-year history in the Philippines, which started by mainly servicing the needs of the Chinese-Filipino commercial sector. China Bank's brand franchise continues to expand, supported by its acquisitions in recent years that reflect its goal to grow further in scale, market reach, and product base.

Past acquisitions led to the establishment of China Bank's retail and consumer banking arm, China Bank Savings, Inc. (China Bank Savings) in 2007. China Bank Savings targets entry-level customers, the broad consumer market, and the small and medium enterprises (SME) sector. The acquisitions not only allowed China Bank Savings to expand its branch network, but also allowed it to offer products and services in tune with the needs of its target market.

China Bank also began to expand its financing options for businesses. Aside from traditional bank lending, the Bank began to offer debt and equity financing arrangements in 2011 when the Investment Banking Group was still part of the Bank. In 2015, the Bank received approval from the Monetary Board

and the Securities and Exchange Commission for the establishment of China Bank Capital Corporation (China Bank Capital), its 100%-owned investment house whose services include debt and equity capital raising, underwriting, project finance, mergers and acquisitions, and financial advisory services to private and public companies. Through China Bank Capital, the Bank also has a 100% effective ownership of CBC Assets One (SPC), Inc. (a special purpose corporation to hold assets for securitization transactions) and China Bank Securities Corporation (an entity that provides stock brokerage services, as well as securities research and analysis services).

The SM Group effectively owned 38.8% of the Bank, of which SM Investments Corporation (SMIC) owned 19.9% as of end-2017. SMIC is the holding company of the SM Group, with interests in Retail, Property and Banking. The banking business is seen as a natural fit to the SM Group, contributing to the creation of synergies within the Group by providing cash management services to SM suppliers, tenants, contractors, and merchants. Among the benefits of China Bank as part of the SM Group are: priority rights to locate branches and ATMs in SM shopping malls, China Bank Savings mini-branches in SaveMore and CityMall locations, ATMs in Alfamart stores, and access to the SM Group's retail network to promote new products.

As part of the SM Group, the Sy Family is considered to exercise significant influence on China Bank's strategy, goal-setting, high-level policy-making, and appointment of senior staff. Despite its strong identification with the Sy Family, China Bank's senior management team is comprised of non-family professionals. While the Bank's senior management team members (in particular, the President, Chief Operating Officer and Chief Finance Officer) are recent appointees to their positions, the new officers have substantial industry experience. PhilRatings also notes that the new senior officers came from within China Bank, and thus are considered to have established a solid working relationship with the Bank prior to their appointments.

China Bank's asset quality is considered sound, with gross non-performing loan (NPL) ratio on a downward trend for the last two years (2016-2017), reaching a low 1.4% as of end-2017. This was attributable to a favorable combination of portfolio expansion and declining NPLs. In the past five years (2013 to 2017), gross NPL ratio has been maintained at low single-digit levels and has not exceeded 3.0%. Ample risk mitigation measures vis-à-vis credit expansion will keep asset quality stable. Credit growth is also seen to support lower NPL ratios going forward.

The bulk of China Bank's funding base consisted of customer deposits, with its deposits to liabilities ratio ranging from 93.9% to 96.3% for 2013-2017. From its 44.0% share in 2013, the share of current and savings accounts (CASA) to deposits has gone up to 54.0% (more than half) by end-2017. This development is viewed by PhilRatings as credit positive, as CASA is considered a low-cost and more stable funding source. In 2017, CASA significantly went up by 24.1% to P343.0 billion due to the Bank's ongoing branch expansion and customer acquisition efforts. CASA will continue to comprise most of deposits for the forecasted period 2019 and 2020.