



November 14, 2019

PHILIPPINE STOCK EXCHANGE, INC.

Disclosure Department
6F PSE Tower One Bonifacio High Street
28th Street corner 5th Avenue Bonifacio Global City
Taguig City

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

Issuer Compliance & Disclosure Department

Philippine Dealing System Holdings Corp. & Subsidiaries
29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City, 1227
Telephone No: 8884-4446

Attention: ATTY. MARIE ROSE M. MAGALLEN-LIRIO
Head- Issuer Compliance and Disclosure Department

Mesdames:

We are pleased to furnish your good office with a copy of our SEC Form 17-Q as of September 30, 2019 filed with the Securities and Exchange Commission (SEC).

For your information and guidance.

Thank you.

Very truly yours,

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

CHINA BANKING CORPORATION

8745 Paseo de Roxas corner Villar Street, Makati City, Philippines
Tel. No. 888-555-888 • Fax No. 8815-3169 • www.chinabank.ph

COVER SHEET

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

| |
|------------------|
| Patrick D. Cheng |
|------------------|

(Contact Person)

| |
|-----------|
| 8885-5555 |
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(Company Telephone Number)

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Month Day
(Fiscal Year)

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Month Day
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(Secondary License Type, If Applicable)

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| Corporate Governance and Finance Dept. |
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(Department Requiring this document)

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(Amended Articles Number/Section)

| |
|-------|
| 1,905 |
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Total No. of Stockholders

| | |
|----------------------------|--|
| Total Amount of Borrowings | |
| | |

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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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 quarter period ended September 30, 2019

2. Commission identification number 443

3. BIR Tax Identification No.. 000-444-210-000

CHINA BANKING CORPORATION

4. Exact name of issuer as specified in its charter

PHILIPPINES

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

CHINA BANK BUILDING 8745 PASEO DE ROXAS COR. VILLAR STS., MAKATI CITY 1226

7. Address of registrant's principal office Postal Code

8. Issuer's telephone number, including area code (02) 8885-5555

9. Former name, former address and former fiscal year, if changed since last report NA

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

| Title of each Class | Number of shares of common stock Outstanding | Amount of debt outstanding |
|----------------------|---|-------------------------------|
| <u>COMMON</u> | <u>2,685,899,812</u> | |

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

Yes ☒ No ☐

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE

COMMON

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 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 90 days

Yes ☒ No ☐

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Attached are the following:

| | |
|-------------|---|
| Annex I: | Interim Consolidated Statements of Financial Position |
| Annex II: | Interim Consolidated Statements of Income |
| Annex III: | Interim Consolidated Statements of Comprehensive Income |
| Annex IV: | Interim Consolidated Statements of Changes in Equity |
| Annex V: | Interim Consolidated Statements of Cash Flows |
| Annex VI: | Aging of Loans and Receivables |
| Annex VII: | Profitability Report by Business Segment |
| Annex VIII: | Financial Soundness Indicators |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.


| | |
|-----------|-------------------------|
| Annex IX: | Management's Discussion |
|-----------|-------------------------|

PART II. OTHER INFORMATION

There are no material disclosures that were not 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.

| | |
|---|--|
| Issuer | <u>CHINA BANKING CORPORATION</u> |
| |  |
| Principal Financial/Accounting Officer/Controller | <u>PATRICK D. CHENG</u> |
| Signature and Title | <u>Chief Finance Officer</u> |
| Date..... | November 14, 2019 |

Part I – Financial Information

Item 1. Financial Statements

- a. **Accounting Policies and Methods of Computation.** The interim condensed consolidated financial statements of China Banking Corporation (the Parent Company) and its subsidiaries (the Group) have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS). The interim condensed consolidated financial statements are presented in Philippine peso, and all values are rounded to the nearest thousand peso except when otherwise indicated.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's financial statements as of December 31, 2018.

The accounting policies adopted are consistent with those of the previous financial year except for the following amendment to PFRS which became effective as of January 1, 2019.

PFRS 16, Leases. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's 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. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Upon adoption of this standard, the Group recognized a right of use asset and lease liability for covered lease contracts.

- b. **Seasonality or Cyclicity of Interim Operations.** Changes in the Group's financial condition or operation were due more to external factors such as interest movements and cost of borrowings rather than seasonality or cyclical aspects.
- c. **Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.** Changes in nature and amounts in the financial statements were due more to market-related factors inherent in the nature of the issuer's business operations and are not considered unusual. Below

are some significant changes as explained in the Management's Discussions of Financial Condition and Results of Operation:

| | September 30, 2019 | December 31, 2018 | Increase (Decrease) |
|--|-------------------------------|-------------------------------|--------------------------------|
| Assets | | | |
| Cash and Other Cash Items | 12,683,297 | 15,639,474 | (2,956,177) |
| Due from Other banks | 10,691,886 | 9,455,447 | 1,236,439 |
| Interbank Loans Receivable and Securities Purchased under Resale Agreements | 14,823,176 | 11,998,040 | 2,825,136 |
| Financial Assets at Fair Value through Profit or Loss | 11,550,977 | 7,596,261 | 3,954,716 |
| Financial Assets at Fair Value through Other Comprehensive Income | 17,901,729 | 10,101,527 | 7,800,202 |
| Investment Securities at Amortized Cost | 197,193,968 | 172,537,036 | 24,656,932 |
| Investments in Associates | 513,284 | 335,092 | 178,192 |
| Bank Premises, Furniture, Fixtures and Equipment - net | 8,108,301 | 6,450,458 | 1,657,843 |
| Deferred Tax Assets | 2,819,080 | 2,514,889 | 304,191 |
| Other Assets | 7,483,218 | 6,219,559 | 1,263,659 |
| Liabilities | | | |
| Bills Payable | 26,518,142 | 39,826,532 | (13,308,389) |
| Bonds Payable | 37,535,939 | — | 37,535,939 |
| Manager's Checks | 2,231,213 | 2,577,175 | (345,962) |
| Income Tax Payable | 161,440 | 477,585 | (316,145) |
| Accrued Interest and Other Expenses | 4,558,967 | 3,842,525 | 716,442 |
| Derivative Liabilities | 1,307,575 | 455,150 | 852,425 |
| Other Liabilities | 10,135,786 | 7,681,646 | 2,454,140 |
| | September 30, 2019 | September 30, 2018 | Increase (Decrease) |
| Income | | | |
| Interest on Loans and Receivable | 26,723,968 | 20,227,279 | 6,496,689 |
| Interest on Trading and investments | 7,880,230 | 4,210,477 | 3,669,753 |
| Interest on Due from BSP and other banks | 772,315 | 523,450 | 248,866 |
| Trading and Securities Gain (Loss) | 1,088,661 | (250,834) | 1,339,495 |
| Service charges, fees and commissions | 2,363,490 | 1,878,449 | 485,041 |
| Foreign Exchange Gain (Loss) - net | (32,236) | 150,223 | (182,459) |
| Income from asset acquired | 443,446 | 674,340 | (230,894) |
| Miscellaneous | 1,331,312 | 1,182,951 | 148,361 |
| Expense | | | |
| Interest on Deposit Liabilities | 14,744,897 | 7,502,683 | 7,242,213 |
| Bills payable and other borrowings | 1,978,874 | 373,999 | 1,604,875 |
| Taxes and licenses | 2,502,687 | 2,026,477 | 476,210 |
| Occupancy costs | 2,072,476 | 1,690,872 | 381,604 |
| Provision for impairment and credit losses | 533,251 | 409,200 | 124,051 |
| Insurance | 1,402,498 | 1,198,106 | 204,392 |
| Repairs and Maintenance | 120,014 | 93,095 | 26,919 |
| Entertainment, amusement and recreation | 307,681 | 254,683 | 52,998 |
| Miscellaneous | 3,245,589 | 2,262,054 | 983,535 |
| Provision for Income Tax | 1,008,986 | 1,637,125 | (628,139) |

- d. **Changes in Estimates of Amounts Reported.** There were no changes in estimates of amounts reported in prior interim periods of current financial year or in estimates of amounts reported in prior financial years.
- e. **Issuances, Repurchases, and Repayments of Debt and Equity Securities.**
USD 150M IFC Green Bond. On June 18, 2019, the Bank issued a \$150 million, seven-year bond to International Finance Corporation. The bond carries an interest margin of 120 basis points over 6-month LIBOR. Shortly thereafter, the Bank entered into a seven-year pay-fixed, receive-floating interest rate swap with the same principal terms to hedge the exposure to variable cash flow payments on the floating-rate bonds payable attributable to interest rate risk.

Issuance of Peso Fixed Rate Bonds. On July 10, 2019, China Bank successfully raised P30 billion as investors supported its maiden issue of peso fixed rate bonds, which bears a fixed coupon rate of 5.70% per annum, payable monthly, and is due on January 2021. Six times oversubscribed, it was one of the largest corporate bond issuances on a single issuance in the market to date.

Tier 2 Capital Notes. On September 4, 2019, the Board of Directors approved for the Bank to conduct a capital raising exercise of up to P15 billion in the form of PHP-denominated Tier 2 Capital Notes, subject to approval of the appropriate regulatory authorities.

- f. **Segment Information.** Operating businesses are recognized and managed separately according to the nature of business served, with each segment representing a strategic business unit. The Bank's comparative revenues and expenses by business segments are shown in Annex VII.
- g. **Dividends.** At the annual stockholders meeting held on May 2, 2019, the stockholders approved the declaration of P0.88 per share cash dividends. Cash dividend was paid on May 31, 2019.
- h. **Effect of Changes in the Composition of the Enterprise during the Interim Period.** There were no changes in the composition of the issuer including business combinations, acquisitions, or disposal of subsidiaries and long term investments, restructuring, and discontinuing operations during the period.
- i. **Changes in Contingent Liabilities or Contingent Assets.** There are various outstanding commitments and contingent liabilities but management does not anticipate any material losses as a result of these transactions.
- j. **Material Contingencies and Any Other Events.**
Capital Infusion to Manulife China Bank Life Assurance Corporation (MCBL). On February 22, 2019, the Bangko Sentral ng Pilipinas (BSP) approved the Bank's capital infusion of P40 million to Manulife China Bank Life Assurance Corporation (MCBL) to comply with the capitalization requirement of the Insurance Commission for insurance companies, which was paid on March 21, 2019.
- k. **Financial Risk Disclosure.** On April 3, 2019, the BOD affirmed the priority risk areas of the Bank considered in the 2019 ICAAP submission.

The Bank submitted its annually updated ICAAP document, in compliance with BSP requirements, on March 29, 2019. In the said document, the Bank retained the Pillar 1 Plus approach using the Pillar 1 capital as the baseline. The process of allocating capital for all types of risks above the Pillar 1 capital levels include quantification of capital buffer for Pillar 2 risks under normal business cycle/condition, in addition to the quantification based on the results of the Integrated Stress Test (IST). The adoption of the IST allows the Bank to quantify its overall vulnerability to market shocks and operational losses in a collective manner driven by events rather than in silo. The capital assessment in the document discloses that the Group and the Parent Company has appropriate and sufficient level of internal capital.

- l. **Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the period.** There were no material events subsequent to the end of the interim period that have been reflected in the financial statements for the period.
- m. **Material commitment for capital expenditures.** The Bank expects to incur capital expenditures related to the ongoing branch expansion plan and technology-related investments. Funding will be sourced internally.

- n. **Fair Value Measurement.** As of September 30, 2019 and December 31, 2018, except for the following financial instruments, the carrying values of the Group's financial assets and liabilities as reflected in the balance sheets and related notes approximate their respective fair values:

| | September 30, 2019 | | December 31, 2018 (Audited) | |
|------------------------------------|--------------------|-----------------|-----------------------------|-----------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets | | | | |
| Financial Assets at Amortized Cost | | | | |
| Government bonds | ₱ 138,962,043 | ₱ 142,869,437 | ₱117,260,018 | ₱108,886,906 |
| Private bonds | 58,231,925 | 59,312,330 | 55,277,018 | 54,077,408 |
| Loans and receivables | | | | |
| Corporate and commercial loans | 443,501,021 | 434,965,935 | 406,403,070 | 389,177,803 |
| Consumer loans | 97,040,735 | 102,906,497 | 85,688,187 | 85,222,099 |
| Trade-related loans | 11,277,502 | 12,036,309 | 13,662,914 | 13,283,538 |
| Others | 635,142 | 671,538 | 50,785 | 56,603 |
| Sales contracts receivable | 1,114,799 | 1,197,659 | 1,040,939 | 1,101,941 |
| Deposit liabilities | 365,855,467 | 358,606,111 | 321,343,811 | 299,666,264 |

As of September 30, 2019 and December 31, 2018, the fair value hierarchy of the Group's assets and liabilities are presented below:

| | September 30, 2019 | | | Total |
|---|--------------------|------------|-------------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Recurring fair value measurements | | | | |
| Financial assets at FVPL | | | | |
| Held-for-trading | | | | |
| Government bonds | 2,933,867 | 1,441,067 | - | 4,374,934 |
| Treasury notes | - | 2,533,448 | - | 2,533,448 |
| Treasury bills | - | 1,040,316 | - | 1,040,316 |
| Private bonds | 1,372,781 | - | - | 1,372,781 |
| Quoted equity shares | 1,274,160 | - | - | 1,274,160 |
| Derivative assets | - | 955,338 | - | 955,338 |
| Financial Assets at FVOCI | - | - | - | - |
| Government bonds | 4,364,934 | 12,287,087 | - | 16,652,021 |
| Quoted private bonds | 595,087 | - | - | 595,087 |
| Quoted equity shares | 636,256 | - | - | 636,256 |
| | 11,177,085 | 18,257,256 | - | 29,434,341 |
| Financial liabilities at FVPL | | | | |
| Derivative liabilities | - | 1,307,575 | - | 1,307,575 |
| | - | 1,307,575 | - | 1,307,575 |
| Fair values of assets carried at amortized cost/cost | | | | |
| Investment securities at amortized cost | | | | |
| Government bonds | 142,869,437 | - | - | 142,869,437 |
| Private bonds | 59,312,330 | - | - | 59,312,330 |
| Loans and receivables | | | | |
| Corporate and commercial loans | - | - | 434,965,935 | 434,965,935 |
| Consumer loans | - | - | 102,906,497 | 102,906,497 |
| Trade-related loans | - | - | 12,036,309 | 12,036,309 |
| Others | - | - | 671,538 | 671,538 |
| Sales contracts receivable | - | - | 1,197,659 | 1,197,659 |
| Investment properties | | | | |
| Land | - | - | 6,112,507 | 6,112,507 |
| Buildings and improvements | - | - | 2,504,556 | 2,504,556 |
| | 202,181,767 | - | 560,395,001 | 762,576,768 |
| Fair values of liabilities carried at amortized cost | | | | |
| Deposit liabilities | - | - | 358,606,111 | 358,606,111 |
| | - | - | 358,606,111 | 358,606,111 |

| December 31, 2018 (Audited) | | | | |
|---|--------------|------------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Recurring fair value measurements | | | | |
| Financial assets at FVPL | | | | |
| Held-for-trading | | | | |
| Government bonds | P492,521 | P141,372 | P– | P633,893 |
| Treasury notes | – | 838,662 | – | 838,662 |
| Treasury bills | – | 1,214,170 | – | 1,214,170 |
| Private bonds | 3,189,063 | – | – | 3,189,063 |
| Quoted equity shares | 1,312,625 | – | – | 1,312,625 |
| Derivative assets | – | 407,848 | – | 407,848 |
| Financial assets at FVOCI | | | | |
| Government bonds | 4,859,716 | 5,107,673 | – | 9,967,389 |
| Quoted private bonds | 35,370 | – | – | 35,370 |
| Quoted equity shares | 80,403 | – | – | 80,403 |
| | P9,969,698 | P7,709,725 | P– | P17,679,423 |
| Financial liabilities at FVPL | | | | |
| Derivative liabilities | P– | P455,150 | | P455,150 |
| | P– | P455,150 | | P455,150 |
| Fair values of assets carried at amortized cost | | | | |
| Investment securities at amortized cost | | | | |
| Government bonds | P108,886,906 | P– | | P108,886,906 |
| Private bonds | 54,077,408 | – | | 54,077,408 |
| Loans and receivables | | | | |
| Corporate and commercial loans | – | – | 389,177,803 | 389,177,803 |
| Consumer loans | – | – | 85,222,099 | 85,222,099 |
| Trade-related loans | – | – | 13,283,538 | 13,283,538 |
| Others | – | – | 56,603 | 56,603 |
| Sales contracts receivable | – | – | 1,101,941 | 1,101,941 |
| Investment properties | | | | |
| Land | – | – | 8,696,956 | 8,696,956 |
| Buildings and improvements | – | – | 1,371,972 | 1,371,972 |
| | P162,964,314 | P– | P498,910,912 | P661,875,227 |
| Fair values of liabilities carried at amortized cost | | | | |
| Deposit liabilities | P– | P– | P299,666,264 | P299,666,264 |
| | P– | P– | P299,666,264 | P299,666,264 |

- o. **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.

Transactions with Retirement Plans

Income earned by the Group from managing the retirement plans amounted to P37.18 million, and P35.82 million for the nine-month periods ended September 30, 2019 and 2018. The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee (TIC) of the Parent Company. The members of the TIC are directors and key management personnel of the Parent Company.

Transactions with related party retirement plan follow:

| | September 30, 2019 | December 31, 2018 (Audited) |
|-------------------------|--|--------------------------------|
| Balance Sheet | | |
| Deposit in banks | P266,250 | P560,672 |
| Equity Investments | 1,364,481 | 1,479,097 |
| Total market value | 1,364,481 | 1,479,097 |
| Number of shares held | 54,579 | 54,579 |
| | Nine Months Ended September 30 2019 | 2018 |
| Income Statement | | |

| | | |
|-----------------|----------------|---------|
| Dividend income | P48,030 | P45,301 |
| Interest income | 21,070 | 10,952 |

Financial Assets at Fair Value through Other Comprehensive Income represent shares of stock of the Parent Company. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

Other Related Party Transactions

Related party transactions of the Group by category of related party are presented below:

| Category | September 30, 2019 | | |
|---------------------------------|---------------------|---------------------|---|
| | Amount / Volume | Outstanding Balance | Terms and Conditions |
| Significant Investor | | | |
| Loans and receivables | | 2,345,300 | These are secured loans with interest rate of 5.25% and maturity of 5. years; collateral includes shares of stocks with fair value of P5.1 billion. |
| Issuances | — | | |
| Repayments | (4,421,200) | | |
| Deposit liabilities | | 1,370 | These are checking accounts with annual average rate of 0.13%. |
| Deposits | 996 | | |
| Withdrawals | — | | |
| Associates | | | |
| Deposit Liabilities | | 135,356 | These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%. |
| Deposit | 156,762 | | |
| Withdrawals | (187,696) | | |
| Key Management Personnel | | | |
| Loans | | 398 | Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50% |
| Issuance | — | | |
| Repayments | (90) | | |
| Deposit Liabilities | | 33,984 | These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00% |
| Deposits | 140,146 | | |
| Withdrawals | (120,730) | | |
| Other Related Parties | | | |
| Deposit Liabilities | | 180,705 | These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%. |
| Deposit | 17,343,984 | | |
| Withdrawals | (17,277,215) | | |

| Category | December 31, 2018 (Audited) | | |
|---------------------------------|-----------------------------|---------------------|---|
| | Amount / Volume | Outstanding Balance | Terms and Conditions |
| Significant Investor | | | |
| Loans | | P6,766,500 | Partially secured Loans with interest rate of 2 - 5.12% and maturity of two to seven years. |
| Issuances | P86,125,000 | | |
| Repayments | (2,350,000) | | |
| Deposit Liabilities | | 374 | These are checking accounts with annual average rate of 0.13%. |
| Deposit | 2,532,609 | | |
| Withdrawals | (2,532,493) | | |
| Associates | | | |
| Deposit Liabilities | | 166,372 | These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%. |
| Deposit | 487,691 | | |
| Withdrawals | (399,123) | | |
| Key Management Personnel | | | |
| Loans | | 488 | Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50% |
| Issuances | 388 | | |
| Repayments | (39,213) | | |
| Deposit Liabilities | | 79,241 | These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%. |
| Deposit | 406,225 | | |
| Withdrawals | (350,120) | | |
| Other Related Parties | | | |
| Deposit Liabilities | | 238,933 | These are checking and savings accounts with annual average interest rates |
| Deposit | 35,337,503 | | |

| December 31, 2018 (Audited) | | | |
|-----------------------------|-----------------|---------------------|------------------------------|
| Category | Amount / Volume | Outstanding Balance | Terms and Conditions |
| Withdrawals | (35,165,054) | | ranging from 0.13% to 1.00%. |

Other related parties pertain to subsidiaries of the significant investor.

Interest income earned and interest expense incurred from the above loans and deposit liabilities, respectively, for the nine-month periods ended September 30, 2019 and September 30, 2018 are presented below:

| | Significant Investor | | Associate | |
|------------------|----------------------|---------|-----------|------|
| | September 30 | | | |
| | 2019 | 2018 | 2019 | 2018 |
| Interest income | P35,180 | P10,942 | P– | P– |
| Interest expense | 1 | 2 | 510 | 57 |

| | Key Management Personnel | | Other Related Parties | |
|------------------|--------------------------|------|-----------------------|------|
| | September 30 | | | |
| | 2019 | 2018 | 2019 | 2018 |
| Interest income | P18 | P408 | P– | P912 |
| Interest expense | 25 | 13 | 153 | 106 |

Related party transactions of the Group with significant investor, associate and other related parties pertain to transactions of the Parent Company with these related parties.

The following table shows the amount and outstanding balance of other related party transactions included in the financial statements:

| | Subsidiaries | | |
|----------------------|--------------------|-------------------|---|
| | September 30, 2019 | December 31, 2018 | Nature, Terms and Conditions |
| Balance Sheet | | | |
| Accounts receivable | P1,590 | P1,242 | This pertains to various expenses advanced by CBC in behalf of CBSI |
| Security deposits | 2,270 | 2,270 | This pertains to the rental deposits with CBSI and CBCC for office space leased out to the Parent Company |
| Accounts payable | 9,409 | 4,858 | This pertains to various unpaid rental to CBSI |

| | Subsidiaries | | |
|-------------------------|--------------------|--------------------|--|
| | September 30, 2019 | September 30, 2018 | Nature, Terms and Conditions |
| Income Statement | | | |
| Miscellaneous income | P1,350 | P1,350 | Human resources functions provided by the Parent Company to its subsidiaries such as recruitment and placement, training and development, salary and benefits development, systems and research, and employee benefits. Under the agreement between the Parent Company and its subsidiaries, the subsidiaries shall pay the Parent Company an annual fee |
| Occupancy cost | 15,040 | 18,193 | Certain units of the condominium owned by CBSI are being leased to the Parent Company for a term of five years, with no escalation clause |
| Miscellaneous expense | 165,617 | 150,873 | This pertains to the computer and general banking services provided by CBC-PCCI to the Parent Company to support its reporting requirements |

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ANNEX I

(Amounts in thousands)

| | September 2019 | December 2018 |
|---|----------------|---------------|
| | Unaudited | Audited |
| ASSETS | | |
| Cash and Other Cash Items | P 12,683,297 | 15,639,474 |
| Due from Bangko Sentral ng Pilipinas | 101,950,887 | 101,889,773 |
| Due from Other banks | 10,691,886 | 9,455,447 |
| Interbank Loans Receivable and Securities Purchased under Resale Agreements | 14,823,176 | 11,998,040 |
| Financial Assets at Fair Value through Profit or Loss | 11,550,977 | 7,596,261 |
| Financial Assets at Fair Value through Other Comprehensive Income | 17,901,729 | 10,101,527 |
| Investment Securities at Amortized Cost | 197,193,968 | 172,537,036 |
| Loans and Receivables - net | 552,454,400 | 505,804,955 |
| Accrued Interest Receivable | 5,179,592 | 5,697,182 |
| Investments in Associates | 513,284 | 335,092 |
| Bank Premises, Furniture, Fixtures and Equipment - net | 8,108,301 | 6,450,458 |
| Investment Properties | 4,943,322 | 4,789,602 |
| Deferred Tax Assets | 2,819,080 | 2,514,889 |
| Intangible Assets | 4,560,005 | 4,202,599 |
| Goodwill | 839,748 | 839,748 |
| Other Assets | 7,483,218 | 6,219,559 |
| | P 953,696,870 | 866,071,640 |
| LIABILITIES AND EQUITY | | |
| Liabilities | | |
| Deposit Liabilities | | |
| Demand | 176,826,938 | 161,239,669 |
| Savings | 234,542,329 | 239,539,817 |
| Time | 365,855,467 | 321,343,811 |
| | 777,224,734 | 722,123,296 |
| Bills Payable | 26,518,142 | 39,826,532 |
| Bonds Payable | 37,535,939 | |
| Manager's Checks | 2,231,213 | 2,577,175 |
| Income Tax Payable | 161,440 | 477,585 |
| Accrued Interest and Other Expenses | 4,558,967 | 3,842,525 |
| Derivative Liabilities | 1,307,575 | 455,150 |
| Deferred Tax Liabilities | 1,168,721 | 1,231,145 |
| Other Liabilities | 10,135,786 | 7,681,646 |
| | 860,842,518 | 778,215,054 |
| Equity | | |
| Equity Attributable to Equity Holders of the Parent Company | | |
| Capital Stock | | |
| Common Stock - P10 par value | | |
| Authorized - 3,300,000,000 shares | | |
| Issued - 2,685,899,812 shares | 26,858,998 | 26,858,998 |
| Capital paid in excess of par value | 17,122,626 | 17,122,626 |
| Surplus Reserves | 3,663,204 | 4,031,008 |
| Surplus | 45,301,610 | 40,497,255 |
| Net Unrealized Gains (Losses) on Financial Assets at FVOCI | (125,701) | (702,509) |
| Remeasurement Gain on Defined Benefit Asset | (37,936) | 117,047 |
| Remeasurement on Life Insurance Reserve of Associate | 19,154 | 19,154 |
| Cumulative Translation Adjustment | 38,989 | (91,699) |
| | 92,840,944 | 87,851,879 |
| Non-controlling Interest | 13,408 | 4,708 |
| | 92,854,353 | 87,856,586 |
| | P 953,696,870 | 866,071,640 |

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

| | September 2019 | December 2018 |
|-------------------------------------|--------------------|--------------------|
| | Unaudited | Audited |
| CONTINGENT ACCOUNTS | | |
| Unused commercial letters of credit | 20,492,398 | 20,978,009 |
| Outstanding guarantees Issued | 895,277 | 944,262 |
| Inward bills for collection | 4,952,345 | 2,563,604 |
| Outward bills for collection | 20,177 | 55,135 |
| IRS receivable | 27,183,300 | 11,366,980 |
| Spot exchange bought | 19,631,741 | 3,624,709 |
| Spot exchange sold | 16,304,920 | 3,247,995 |
| Forward exchange bought | 34,828,735 | 37,359,690 |
| Forward exchange sold | 26,060,757 | 24,678,551 |
| Trust department accounts | 171,218,995 | 133,806,226 |
| Credit card Lines | 10,533,051 | 12,568,703 |
| Late deposits/payments received | 204,414 | 495,347 |
| Deficiency claims receivable | 286,062 | 287,647 |
| Standby credit commitment | 3,577,156 | 3,149,787 |
| Others | 23,913 | 1,846 |
| | 336,213,240 | 255,128,491 |

CHINA BANKING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Amounts in thousands)

ANNEX II

| | | For the Three Quarters Ended Sept 30 | | For the Quarter Ended Sept 30 | |
|---|----------|--------------------------------------|-------------------|-------------------------------|------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| INTEREST INCOME | | | | | |
| Loans and receivable | P | 26,723,968 | 20,227,279 | 9,243,727 | 7,427,337 |
| Trading and investments | | 7,880,230 | 4,210,477 | 2,755,859 | 1,622,596 |
| Due from BSP and other banks | | 772,315 | 523,450 | 269,985 | 187,276 |
| | | 35,376,513 | 24,961,206 | 12,269,571 | 9,237,208 |
| INTEREST EXPENSES | | | | | |
| Deposit liabilities | | 14,744,897 | 7,502,683 | 4,448,282 | 3,047,894 |
| Bills payable and other borrowings | | 1,978,874 | 373,999 | 911,652 | 163,122 |
| | | 16,723,771 | 7,876,682 | 5,359,934 | 3,211,016 |
| NET INTEREST INCOME | | 18,652,742 | 17,084,524 | 6,909,637 | 6,026,192 |
| Trading and securities gain/(loss) | | 1,088,661 | (250,834) | 202,952 | (56,473) |
| Service charges, fees and commissions | | 2,363,490 | 1,878,449 | 814,167 | 682,088 |
| Foreign exchange gain- net | | (32,236) | 150,223 | 148,469 | 74,519 |
| Income from asset acquired | | 443,446 | 674,340 | 201,472 | 449,745 |
| Miscellaneous | | 1,331,312 | 1,182,951 | 463,430 | 398,963 |
| TOTAL OPERATING INCOME | | 23,847,415 | 20,719,652 | 8,740,128 | 7,575,034 |
| Compensation and fringe benefits | | 5,007,498 | 4,630,290 | 1,680,685 | 1,574,491 |
| Taxes and licenses | | 2,502,687 | 2,026,477 | 915,429 | 662,834 |
| Occupancy costs | | 2,072,476 | 1,690,872 | 760,134 | 621,529 |
| Depreciation and amortization | | 940,383 | 956,971 | 306,661 | 310,198 |
| Provision for impairment and credit losses | | 533,251 | 409,200 | 195,288 | 434,968 |
| Insurance | | 1,402,498 | 1,198,106 | 488,023 | 392,389 |
| Repairs and maintenance | | 120,014 | 93,095 | 44,490 | 33,245 |
| Entertainment, amusement and recreation | | 307,681 | 254,683 | 118,266 | 118,207 |
| Miscellaneous | | 3,245,589 | 2,262,054 | 1,287,133 | 780,217 |
| TOTAL OPERATING EXPENSES | | 16,132,076 | 13,521,747 | 5,796,109 | 4,928,078 |
| INCOME BEFORE INCOME TAX | | 7,715,339 | 7,197,905 | 2,944,018 | 2,646,955 |
| PROVISION FOR INCOME TAX | | 1,008,986 | 1,637,125 | 457,906 | 651,253 |
| NET INCOME | P | 6,706,353 | 5,560,780 | 2,486,112 | 1,995,702 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 6,700,016 | 5,555,189 | 2,483,492 | 1,993,732 |
| Non-controlling Interest | | 6,337 | 5,591 | 2,621 | 1,971 |
| | P | 6,706,353 | 5,560,780 | 2,486,112 | 1,995,702 |
| Earnings Per Share | | | | | |
| a. Basic | | 2.49 | 2.07 | 0.92 | 0.74 |
| b. Diluted * | | 2.49 | 2.07 | 0.92 | 0.74 |
| Net Income | | 6,700,016 | 5,555,189 | 2,483,492 | 1,993,732 |
| Weighted Ave. Number of Common Shares Outstanding | | 2,685,900 | 2,685,750 | 2,685,900 | 2,685,750 |

* Same as basic earnings per share. No preferred shares, convertible bonds and stock warrants issued.

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

ANNEX III

For the Quarters Ended September 2019 and 2018

(Amounts in thousands)

| | For the Three Quarters Ended Sept 30 | | For the Quarter Ended Sept 30 | |
|---|--------------------------------------|------------------|-------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net Income | 6,706,353 | 5,560,780 | 2,486,113 | 1,995,703 |
| Other Comprehensive Income (Loss): | | | | |
| <i>Items that recycle to profit or loss in subsequent periods:</i> | | | | |
| Net unrealized gain (loss) on fair value through profit or loss | | | | |
| Fair value gain(loss) for the year, net of tax | 713,788 | (471,339) | 118,439 | (96,476) |
| Gains taken to profit or loss | (134,446) | (5,596) | (48,781) | 9,862 |
| Share in Other Comprehensive Income of Associate: | | | | |
| Net Unrealized Gain on FVOCI | - | 14,271 | (161,778) | - |
| Share in Other Comprehensive Income of Subsidiaries: | | | | |
| Surplus Reserves | - | (25,459) | - | (27,911) |
| Cumulative translation adjustment | 130,862 | (33,857) | 20,966 | 20,922 |
| <i>Items that do not recycle to profit or loss in subsequent periods:</i> | | | | |
| Remeasurement gain on defined benefit asset or liability | (155,327) | 55,104 | 2,673 | 58,371 |
| Remeasurement loss on life insurance reserves | - | - | 19,154 | - |
| Other Comprehensive Income for the year | 554,877 | (466,877) | (49,328) | (35,231) |
| Total Comprehensive Income for the year | 7,261,230 | 5,093,902 | 2,436,787 | 1,960,472 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Parent Company | 7,252,530 | 5,088,249 | 2,433,777 | 1,958,534 |
| Non-controlling Interest | 8,700 | 5,653 | 3,009 | 1,938 |
| | 7,261,230 | 5,093,902 | 2,436,787 | 1,960,472 |

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Amounts in thousands)

ANNEX IV

| | | | | | | Remeasurement on | | Cumulative | | | |
|---|-------------------|--|------------------|-------------------|---|--|--|---------------------------|-------------------|-------------------|-------------------|
| | Capital Stock | Capital Paid in Excess of Par Value | Surplus Reserves | Surplus Free | Net unrealized gains (losses) on FVOCI | Remeasurement gain on defined benefit asset or liability | life insurance reserve of an associate | Translation Adjustment | Total | Minority Interest | Total Equity |
| Balance at December 31, 2018 | 26,858,998 | 17,122,626 | 4,031,008 | 40,497,256 | (702,509) | 117,047 | 19,154 | (91,699) | 87,851,880 | 4,708 | 87,856,589 |
| Total comprehensive income for the year | - | - | - | 6,700,016 | 576,809 | (154,983) | - | 130,688 | 7,252,530 | 8,700 | 7,261,229 |
| Retained Earnings, appropriated | - | - | (367,804) | 367,804 | - | - | - | - | - | - | - |
| Other adjustments | - | - | - | 100,127 | - | - | - | - | 100,127 | - | 100,127 |
| Cash Dividends - P0.88 per share | - | - | - | (2,363,592) | - | - | - | - | (2,363,592) | - | (2,363,592) |
| Balance at September 30, 2019 | 26,858,998 | 17,122,626 | 3,663,204 | 45,301,611 | (125,701) | (37,936) | 19,154 | 38,989 | 92,840,945 | 13,408 | 92,854,353 |
| Balance at December 31, 2017, as previously reported | 26,847,717 | 17,096,228 | 926,689 | 40,360,564 | (1,813,280) | 283,763 | (12,221) | (38,698) | 83,650,763 | 4,736 | 83,655,500 |
| Effect of initial application of PFRS 9: | - | - | - | (2,646,985) | 1,686,724 | - | - | - | (960,261) | - | (960,261) |
| Balance at December 31, 2017, as restated | 26,847,717 | 17,096,228 | 926,689 | 37,713,579 | (126,556) | 283,763 | (12,221) | (38,698) | 82,690,502 | 4,736 | 82,695,238 |
| Total comprehensive income for the year | - | - | (25,459) | 5,555,189 | (476,955) | 55,104 | 14,271 | (33,901) | 5,088,249 | 5,653 | 5,093,903 |
| Transfer from Surplus to Surplus Reserves | - | - | 23,512 | (23,512) | - | - | - | - | - | - | - |
| CBC shares subscription | 11,281 | 26,397 | - | - | - | - | - | - | 37,678 | - | 37,678 |
| Cash Dividends - P0.83 per share | - | - | - | (2,229,297) | - | - | - | - | (2,229,297) | - | (2,229,297) |
| Balance at September 30, 2018 | 26,858,998 | 17,122,626 | 924,741 | 41,015,959 | (603,510) | 338,867 | 2,050 | (72,598) | 85,587,132 | 10,390 | 85,597,522 |

CHINA BANKING CORPORATION
STATEMENTS OF CASH FLOWS
For the periods ended

ANNEX V

| | SEPTEMBER | | SEPTEMBER | |
|---|------------------|---------------------|------------------|---------------------|
| | 2019 | | 2018 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income before income tax | P | 7,715,339 | P | 7,197,905 |
| Adjustment to reconcile income before income tax to net cash provided operations: | | | | |
| Provision for probable losses | | 533,251 | | 409,200 |
| Depreciation and amortization | | 940,383 | | 956,971 |
| Trading Gain/Loss on FVOCI | | 576,809 | | (504,924) |
| Gain on sale of investment properties | | (443,446) | | (674,340) |
| Operating income before changes in operating assets and liabilities | | 9,322,335 | | 7,384,811 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in the amounts of: | | | | |
| Financial assets at FVPL | | (3,954,716) | | 9,631,214 |
| Loans and receivables | | (47,182,696) | | (32,808,213) |
| Other assets | | (1,124,314) | | (440,509) |
| Increase (decrease) in the amounts of: | | | | |
| Deposit liabilities | | 55,101,438 | | 56,563,756 |
| Manager's checks | | (345,962) | | (715,135) |
| Accrued interest and other expenses | | 716,442 | | 556,985 |
| Other liabilities | | 3,306,565 | | 2,264,834 |
| Net cash provided by operations | | 15,839,092 | | 42,437,742 |
| Income taxes paid | | (1,691,746) | | (1,288,169) |
| Net cash provided by operating activities | | 14,147,346 | | 41,149,573 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Net additions to bank premises, furniture, fixtures and equipment | | (2,598,226) | | (1,143,358) |
| Proceeds from sale of investment properties | | 386,397 | | 831,572 |
| Adjustment of minority interest | | 2,364 | | 121 |
| Additional investment of an associate | | (40,000) | | - |
| Decrease (increase) in equity investments | | (138,192) | | 75,137 |
| Decrease (increase) in the amounts of: | | | | |
| Financial Assets at FVOCI | | (7,800,202) | | 38,076,959 |
| Financial Assets at Amortized Cost | | (24,656,932) | | (99,033,052) |
| Net cash provided by (used in) investing activities | | (34,844,791) | | (61,192,622) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Increase (decrease) in bills payable | | (13,308,389) | | 3,944,248 |
| Bonds Payable | | 37,535,939 | | - |
| Payments of cash dividend | | (2,363,592) | | (2,229,297) |
| Issuance of additional shares | | - | | 37,678 |
| Net cash provided by financing activities | | 21,863,958 | | 1,752,630 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 1,166,513 | | (18,290,420) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | | |
| Cash and other cash items | | 15,639,474 | | 12,685,984 |
| Due from Bangko Sentral ng Pilipinas | | 101,889,773 | | 98,490,014 |
| Due from Other banks | | 9,455,447 | | 15,641,476 |
| Interbank loans receivable and securities purchased under resale agreements | | 11,998,040 | | 18,751,845 |
| | | 138,982,734 | | 145,569,320 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | | |
| Cash and other cash items | | 12,683,297 | | 10,096,193 |
| Due from Bangko Sentral ng Pilipinas | | 101,950,887 | | 100,166,843 |
| Due from Other banks | | 10,691,886 | | 10,125,164 |
| Interbank loans receivable and securities purchased under resale agreements | | 14,823,176 | | 6,890,700 |
| | P | 140,149,246 | P | 127,278,901 |
| RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES | | | | |
| Bills payable | | | | |
| Balance at beginning of year | | 39,826,532 | | 20,118,031 |
| Cash flows during the year | | | | |
| Proceeds | 48,829,422 | | 121,817,542 | |
| Settlement | (57,378,537) | (8,549,115) | (123,819,525) | (2,001,982) |
| Non-cash changes | | | | |
| Foreign exchange movement | (626,474) | | 1,600,230 | |
| Amortization of transaction cost | (4,132,800) | (4,759,274) | 4,346,000 | 5,946,230 |
| Balance as of September 30 | | 26,518,142 | | 24,062,279 |

China Banking Corporation
Aging of Loans and Receivables
September 30, 2019

ANNEX VI

| | Total | Current | 90 days or less | 91 to 180 days | 181 days to 1 year | More than 1 year | Total Past Due | Items in Litigation |
|--|--------------------|-------------|-----------------|----------------|--------------------|------------------|----------------|---------------------|
| Loans and Receivables | 558,949,804 | 548,179,092 | 3,364,453 | 1,658,951 | 1,450,849 | 3,277,133 | 9,751,386 | 1,019,326 |
| Less: Allow for Probable Losses & Unamortized Discount | 6,495,404 | | | | | | | |
| Net Loans and Receivables | 552,454,400 | | | | | | | |
| Accounts Receivables | 3,516,938 | 2,742,638 | 5,100 | 85,475 | 10,700 | 322,519 | 423,794 | 350,506 |
| Less: Allowance for Probable Losses | 344,539 | | | | | | | |
| Net Accounts Receivables | 3,172,398 | | | | | | | |
| Accrued Interest Receivables | 5,476,553 | 5,476,553 | | | | | | |
| Less: Allowance for Probable Losses | 296,961 | | | | | | | |
| Net Accrued Interest Receivables | 5,179,592 | | | | | | | |

CHINA BANKING CORPORATION

PROFITABILITY REPORT BY BUSINESS SEGMENT

ANNEX VII

Segment Report

China Bank's operating businesses are recognized and managed separately according to the nature of services provided and the markets served, with each segment representing a strategic business unit. The Bank's business segments are as follows:

- a. Lending Business - principally handles all the lending, trade finance and corollary banking products and services offered to corporate and institutional customers as well as selected middle market clients. It also handles home loans, contract-to-sell receivables auto loans and credit cards for individual and/or corporate customers. Aside from the lending business, it also provides cash management services and remittance transactions;
- b. Retail Banking Business - principally handles retail and commercial loans, individual and corporate deposits, overdrafts and funds transfer facilities, trade facilities and all other services for retail customers;
- c. Financial Markets - principally provides money market, trading and treasury services, manages the Bank's funding operations by the use of government securities, placements and acceptances with other banks as well as offers advisory and capital-raising services to corporate clients and wealth management services to high net-worth customers; and
- d. Others – handles other services including but not limited to trust and investment management services, asset management, insurance brokerage, credit management, thrift banking business, operations and financial control, and other support services.

The Bank's businesses are organized to cater to the banking needs of market segments, facilitate customer engagement, ensure timely delivery of products and services as well as achieve cost efficiency and economies of scale. Accordingly, the corresponding segment information for all periods presented herein are restated to reflect such change.

The Bank reports its primary segment information to the Chief Operating Decision Maker (CODM) on the basis of the above-mentioned segments. The CODM of the Bank is the President.

Segment assets are those operating assets that are employed by a segment in its operating activities that 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 that either are 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 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.

Other operating income mainly consists of trading and securities gain (loss) - net, service charges, fees and commissions, trust fee income and foreign exchange gain - net. Other operating expense mainly consists of compensation and fringe benefits, provision for impairment and credit losses, taxes and licenses, occupancy, depreciation and amortization, stationery, supplies and postage and insurance. Other operating income and expense are allocated between segments based on equitable sharing arrangements.

The Bank has no significant customers which contribute 10% or more of the consolidated revenues.

The Bank's asset-producing revenues are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is not presented.

The following tables present relevant information regarding business segments as of September 30, 2019:



**PROFITABILITY REPORT BY BUSINESS SEGMENT
FOR THE PERIOD ENDING SEPTEMBER 30, 2019
CONSOLIDATED
(Amounts in thousands of Pesos)**

| | LENDING BUSINESS | RETAIL BANKING BUSINESS | FINANCIAL MARKETS | OTHER BUSINESS & SUPPORT UNITS | BANKWIDE |
|--|---------------------|----------------------------|----------------------|-----------------------------------|--------------------|
| Net interest income | 17,845,958 | (4,173,558) | 2,600,504 | 2,379,838 | 18,652,742 |
| Third Party Intersegment | (12,594,292) | 13,379,127 | (288,463) | (496,372) | - |
| Net Interest Income after Intersegment Transactions | 5,251,665 | 9,205,569 | 2,312,041 | 1,883,467 | 18,652,742 |
| Other Operating Income | 1,349,798 | 1,554,165 | 999,112 | 1,291,598 | 5,194,673 |
| Total Revenue | 6,601,463 | 10,759,734 | 3,311,154 | 3,175,064 | 23,847,415 |
| Other Operating expense | (2,970,349) | (7,545,306) | (1,318,742) | (4,297,679) | (16,132,076) |
| Income before income tax | 3,631,114 | 3,214,428 | 1,992,412 | (1,122,615) | 7,715,339 |
| Income tax provision | (19,443) | (164,366) | (910,154) | 84,977 | (1,008,986) |
| Net Income | 3,611,671 | 3,050,062 | 1,082,258 | (1,037,638) | 6,706,353 |
| Total Assets | 425,365,961 | 505,936,116 | 240,831,462 | (218,436,669) | 953,696,870 |
| Total Liabilities | 1,528,852 | 562,138,224 | 113,104,895 | 184,070,547 | 860,842,518 |
| Depreciation & Amortization | 94,272 | 431,336 | 91,949 | 322,826 | 940,383 |
| Provision for impairment and credit losses | 164,867 | 241,552 | 23,257 | 103,575 | 533,251 |
| Capital Expenditures | 17,667 | 133,826 | 6,234 | 117,138 | 274,865 |

Financial Soundness Indicators

| | | |
|---------------------------------|------------------------------|------------------------------|
| <i>PROFITABILITY (%)</i> | <u>Jan – Sep 2019</u> | <u>Jan – Sep 2018</u> |
| Return on Average Equity | 9.92 | 8.77 |
| Return on Average Assets | 0.99 | 0.97 |
| Cost-to-income ratio | 65 | 63 |
| Net Interest Margin | 3.29 | 3.63 |
| | | |
| <i>LIQUIDITY (%)</i> | <u>Sep 2019</u> | <u>Dec 2018</u> |
| Liquid Assets to Total Assets | 38 | 38 |
| Loans to Deposit Ratio | 71 | 70 |
| | | |
| <i>ASSET QUALITY (%)</i> | <u>Sep 2019</u> | <u>Dec 2018</u> |
| Gross NPL Ratio | 1.4 | 1.2 |
| Non-performing Loan (NPL) Cover | 122 | 167 |
| | | |
| <i>SOLVENCY</i> | <u>Sep 2019</u> | <u>Dec 2018</u> |
| Debt to Equity Ratio | 9.3 | 8.9 |
| Asset to Equity Ratio | 10.3 | 9.9 |
| Interest Coverage Ratio | 1.5 | 1.9* |
| | | |
| <i>CAPITAL ADEQUACY (%)</i> | <u>Sep 2019</u> | <u>Dec 2018</u> |
| CET 1 / Tier 1 Ratio | 12.73 | 12.16 |
| Total CAR | 13.64 | 13.09 |

*for Jan-Sep 2018

Definition of Ratios

Profitability Ratios:

| | | |
|--------------------------|---|--|
| Return on Average Equity | - | $\frac{\text{Net Income after Income Tax}}{\text{Average Total Equity}}$ |
| Return on Average Assets | - | $\frac{\text{Net Income after Income Tax}}{\text{Average Total Assets}}$ |
| Cost-to-Income Ratio | - | $\frac{\text{Operating Expenses excl Provision for Impairment \& Credit Losses}}{\text{Total Operating Income}}$ |
| Net Interest Margin | - | $\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$ |

Liquidity Ratios:

| | | |
|-------------------------------|---|--|
| Liquid Assets to Total Assets | - | $\frac{\text{Total Liquid Assets}}{\text{Total Assets}}$ |
| Loans to Deposit Ratio | - | $\frac{\text{Loans (Net)}}{\text{Deposit Liabilities}}$ |

Asset Quality Ratios:

| | | |
|---------------------------------|---|---|
| Gross NPL Ratio | - | $\frac{\text{Gross Non-Performing Loans}}{\text{Gross Loans}}$ |
| Non-Performing Loan (NPL) Cover | - | $\frac{\text{Total Allowance for Impairment \& Credit Losses on Receivables from Customers plus Retained Earnings Appropriated for Gen. Loan Loss Provision}}{\text{Gross Non-Performing Loans}}$ |

Solvency Ratios:

| | | |
|-------------------------|---|---|
| Debt to Equity Ratio | - | $\frac{\text{Total Liabilities}}{\text{Total Equity}}$ |
| Asset to Equity Ratio | - | $\frac{\text{Total Assets}}{\text{Total Equity}}$ |
| Interest Coverage Ratio | - | $\frac{\text{Net Income Before Tax and Interest Expense}}{\text{Interest Expense}}$ |

Capital Adequacy Ratio:

| | | |
|------------------------------|---|---|
| Capital to Risk Assets Ratio | - | BSP prescribed formula: |
| CET 1 CAR | - | $\frac{\text{CET 1 Capital}}{\text{Total Risk Weighted Assets}}$ |
| Tier 1 CAR | - | $\frac{\text{Tier 1 Capital}}{\text{Total Risk Weighted Assets}}$ |
| Total CAR | - | $\frac{\text{Total Qualifying Capital}}{\text{Total Risk Weighted Assets}}$ |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation (Including Subsidiaries)

Financial Highlights (Consolidated)

| <i>In Million Pesos</i> | <u><i>Jan – Sep 2019</i></u> | <u><i>Jan – Sep 2018</i></u> |
|-------------------------|------------------------------|------------------------------|
| Gross Revenues | 40,571 | 28,596 |
| Gross Expenses | 33,865 | 23,036 |
| Net Income | 6,706 | 5,561 |

| <i>In Million Pesos</i> | <u><i>Sep 2019</i></u> | <u><i>Dec 2018</i></u> |
|-------------------------|------------------------|------------------------|
| Total Resources | 953,697 | 866,072 |
| Loan Portfolio (Net) | 552,454 | 505,805 |
| Total Deposits | 777,225 | 722,123 |
| Equity | 92,854 | 87,857 |

Key Performance Indicators

| <i>PROFITABILITY (%)</i> | <u><i>Jan – Sep 2019</i></u> | <u><i>Jan – Sep 2018</i></u> |
|---------------------------------|------------------------------|------------------------------|
| Return on Average Equity | 9.92 | 8.77 |
| Return on Average Assets | 0.99 | 0.97 |
| Cost to income ratio | 65 | 63 |
| Net Interest Margin | 3.29 | 3.63 |
| | | |
| <i>LIQUIDITY (%)</i> | <u><i>Sep 2019</i></u> | <u><i>Dec 2018</i></u> |
| Liquid Assets to Total Assets | 38 | 38 |
| Loans to Deposit Ratio | 71 | 70 |
| | | |
| <i>ASSET QUALITY (%)</i> | <u><i>Sep 2019</i></u> | <u><i>Dec 2018</i></u> |
| Gross NPL Ratio | 1.4 | 1.2 |
| Non-performing Loan (NPL) Cover | 122 | 167 |
| | | |
| <i>SOLVENCY</i> | <u><i>Sep 2019</i></u> | <u><i>Dec 2018</i></u> |
| Debt to Equity Ratio | 9.3 | 8.9 |
| Asset to Equity Ratio | 10.3 | 9.9 |
| Interest Coverage Ratio | 1.5 | 1.9* |
| | | |
| <i>CAPITAL ADEQUACY (%)</i> | <u><i>Sep 2018</i></u> | <u><i>Dec 2018</i></u> |
| CET 1 / Tier 1 Ratio | 12.73 | 12.16 |
| Total CAR | 13.64 | 13.09 |

*for Jan-Sep 2018

Economic Environment

The US economic growth decelerated to 1.9% in 3Q 2019 from previous year's 2.9%. This was mainly due to the 1.5% contraction in non-residential fixed investments which was significantly slower than 13.7% uptick in 3Q 2018. Consumer spending remained the biggest contributor to growth despite the below-target inflation of 1.5%. Due to muted inflation and the ongoing US-China trade talks, the US Fed brought down policy rates to 1.50% - 1.75% as a buffer against the slowing economy. Meanwhile, China's GDP cooled down anew as it logged a 27-year low growth of 6.0%, resulting from domestic credit tightening and trade dispute with the US.

On the domestic front, the Philippine GDP growth improved to 6.2% in the third quarter of 2019 from robust household and government spending which contributed 64% and 17% to growth, respectively. The pick-up in construction activity failed to lift capital formation spending growth to positive territory (-2.1%). Net exports only grew by 1.5% with the flat exports and imports volume. Balance of Payments recorded a surplus in the second quarter of US\$991 million, a reversal from last year's US\$2.0 billion deficit. As a result, the Philippine peso appreciated by 4% year-on-year to US\$ 1.00: P51.83 by end-September. Gross international reserves remained adequate at US\$ 85.7 billion or 7.5 months' worth of imports in October. The nine-month GDP growth of 5.8% was still below the government's overall target of 6.0% - 7.0%.

Domestic liquidity increased 7.7% to P12.0 trillion in September, while household consumption sustained its growth (+5.9%). Inflation continued its downtrend (high-base effect) to 1.7% by the third quarter, below the 2%-4% target range. BSP slashed policy rates in May, August, and September to 4.0% and programmed a gradual 400-bp reduction in reserve requirement to 14% by December.

The combined assets of the UK/B & TB industry expanded 10.0% year-on-year to P17.4 trillion in September. Loans (+9.0%) and deposits (+5.8%) slightly recovered, which brought the loans-to-deposit ratio to 75%. Gross NPL ratio went up to 2.2%, while loan loss coverage declined to 94%. The UKB industry remained well-capitalized with total CAR ratios of 15.28% (solo) and 15.95% (consolidated) in June 2019, which were well-above the regulatory minimum.

Results of Operation

Analysis of Consolidated Statements of Income (unaudited) For the period ended September 30, 2019 and September 30, 2018

The Bank recorded a 20.6% hike in net income to P6.7 billion for the first nine months of 2019 from the P5.6 billion posted in the same period last year as the Bank sustained growth in core income. Return on equity was recorded at 9.92%, while return on assets was at 0.99%.

Total interest income increased 41.7% to P35.4 billion from P25.0 billion. **Interest income from loans and receivables** was up 32.1% to P26.7 billion from P20.2 billion on the back of year-on-year loan portfolio expansion. **Interest income from trading and investments** climbed 87.2% to P7.9 billion from the build-up in securities holdings. Furthermore, interest income from **due from BSP and other banks** was 47.5% higher at P772.3 million because of the growth in placements with other banks.

Total interest expense amounted to P16.7 billion, P8.8 billion or 112.3% larger than last year due to the build-up in funding. **Interest expenses on deposit liabilities** increased 96.5% to P14.7 billion arising from deposit expansion and higher borrowing costs. **Interest expenses on bills payable and other borrowings** was P1.6 billion higher due to volume-related growth including the Bank's P30 billion retail bond offer and Dollar-denominated Green bond issuance to International Finance Corporation (IFC).

Net Interest income for the nine-month period rose 9.2% to P18.7 billion. On the other hand, the Bank's **net interest margin** compressed to 3.29% from 3.63% due to higher funding cost.

Provision for impairment and credit losses totaled P533.3 million, 30.3% higher on the back of sustained loan build-up.

Total **non-interest income** surged 42.9% to P5.2 billion driven mainly by service charges, fees and commissions, as well as trading and securities gains. **Service charges, fees and commissions** increased 25.8% from the upswing in transactional fees. Trading opportunities boosted the Bank's profitability as **trading and securities gain** rebounded to P1.1 billion. Meanwhile, **foreign exchange loss** amounted to P32.2 million from P150.2 million gain because of the month-to-month movement in the Peso-Dollar exchange rate. **Income from assets acquired** decreased 34.2% to P443.4 million from P674.3 million from the lower sales of foreclosed properties. **Miscellaneous income** increased 12.5% to P1.3 billion due to higher trust revenues and income share from an affiliate.

Meanwhile, **operating expenses** (excluding provision for impairment and credit losses) increased 19.0% to P15.6 billion as the Bank continued to upgrade and expand its infrastructure and manpower. **Compensation and fringe benefits** increased 8.1% to P5.0 billion from the increase in human resource complement. **Taxes and licenses** were up 23.5% to P2.5 billion due to higher gross receipts and documentary stamp taxes. Business and network expansion resulted in the 22.6% growth in **occupancy costs** to P2.1 billion. **Insurance**, which includes PDIC premium payments, grew 17.1% to P1.4 billion with the expansion in deposits. **Repairs and maintenance** were also 28.9% higher at P120.0 million due to various technology platform upgrades. **Entertainment, amusement and recreation** increased 20.8% to P307.7 million from the booking of higher marketing- and selling-related expenses. Meanwhile, **miscellaneous expenses** went up by 43.5% primarily from higher information technology-related expenses, among others.

Financial Condition

Analysis of Consolidated Statement of Financial Condition As of September 30, 2019 (unaudited) and December 31, 2018 (audited)

Assets expanded by 10.1% to P953.7 billion with the build-up in loans and liquid assets.

Cash and other cash items fell 18.9% to P12.7 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from other banks** increased 13.1% to P10.7 billion from the year-to-date increase in placements with correspondent banks. **Interbank loans receivable and securities purchased under resale agreements** rose 23.5% to P14.8 billion from the higher overnight placements with the BSP.

Total investment securities amounted to P226.6 billion, up 19.1%. The build-up in securities volume raised the portfolio of **financial assets at fair value through profit & loss (FVPL)** by P4.0 billion or 52.1% to P11.6 billion and **financial assets at fair value through other comprehensive income (FVOCI)** by P7.8 billion or 77.2% to P17.9 billion. Likewise, **investment securities at amortized cost** increased P24.7 billion to P197.2 billion due to larger volume of fixed income assets. The Bank's securities portfolio accounted for 24% of consolidated resources, higher than the 22% at year-end.

The Bank's liquidity ratio was steady at 38%.

Gross loan portfolio was at P559.3 billion, 9.0% higher year-to-date, while **net loans** stood at P552.4 billion, up P46.6 billion or 9.2% as the demand across market segments steadily increased. Year-on-year, gross loans expanded P51 billion or 10.0%.

Accrued interest receivable amounted to P5.2 billion, down 9.1% from reclassification of unearned interest and deposits. **Investment in associates** saw a P178.2 million increase to P513.3 million because of additional capital infusion to the Bank's affiliate, MCBLife. **Bank premises, furniture, fixture, and equipment** grew by P1.7 billion or 25.7% to P8.1 billion from PFRS-16 related adjustments. **Deferred tax assets** grew by P304.2 million to P2.8 billion due to the recognition of DTA on additional allowance for credit losses. **Intangible assets** increased 8.5% to P4.6 billion due to the acquisition of new IT software. **Other assets** grew by P1.3 billion or 20.3% accounting from higher prepaid expenses, and other cash items.

Total deposits ended at P777.2 billion, of which CASA (demand and savings deposits) totaled P411.4 billion. **Bills payable** dropped P13.3 billion or 33.4% to P26.5 billion from lower interbank borrowings and BSP rediscounted loans. The Bank also booked **bonds payable** worth P37.5 billion representing the issuance of seven-year Green Bond to IFC for the funding of environment-friendly & sustainable projects and P 30 billion via retail bond offer. **Manager's checks** declined 13.4% to P2.2 billion because of lower demand from branch customers. **Income tax payable** decreased to P161.4 million due to lower income subject to regular corporate income tax for the period. **Accrued interest and other expenses** were 18.6% larger at P4.6 billion because of the booking of accruals and payroll expenses. **Derivative liabilities** increased to P1.3 billion from P455.2 million from higher volume of currency swaps during the period. The 5.1% drop in **deferred tax liabilities** was mainly attributed to the savings bank subsidiary. **Other liabilities** increased P2.5 billion to P10.1 billion mainly from higher inter-agency liabilities and PFRS-16 related adjustments.

Total equity (including minority interest) stood at P92.9 billion, P5.0 billion higher than last year's P87.9 billion mainly from the 11.9% increase in **surplus**. The 9.1% decrease in **surplus reserves** to P3.7 billion was attributed to the savings bank. **Net unrealized loss on FVOCI** improved 82.1% because of the mark-to-market revaluation of the Bank's securities portfolio. **Remeasurement gain on defined benefit asset** recorded a P155.0 million downtrend because of higher retirement payouts from subsidiaries. **Cumulative translation adjustment** improved to P39.0 million due to exchange rate difference arising from the conversion of income and expenses related to foreign currency-denominated positions to base currency.

The Bank's Common Equity Tier 1 (CET 1 / Tier 1) ratio and total CAR were computed at 12.73% and 13.64%, respectively; well above the minimum regulatory requirement.

Total Comprehensive Income

For the period ended September 30, 2019 and September 30, 2018

The Bank recorded **total comprehensive income** of P7.3 billion for January to September, a P2.2 billion or 42.5% increase from the P5.1 billion recorded in the same period last year mainly from the growth in net income and the P1.1 billion increase in net unrealized gain on FVOCI.

Key Performance Indicators

Profitability

The Bank posted a net income of P6.7 billion resulting in 9.92% ROE and 0.99% ROA. Cost-to-income ratio was higher at 65% from the 63% as the Bank continued to invest in technology upgrades and human resource development. Net interest margin fell to 3.29% from 3.63% due to higher cost of funds.

Liquidity

The Bank's liquidity ratio (the ratio of liquid assets to total assets) remained steady at 38%.

Asset Quality

Asset quality remained healthy amid loans growth with Gross NPL ratio recorded 1.4% and consolidated NPL coverage ratio at 122% as of September.

Solvency Ratios

Debt-to-equity ratio was at 9.3 in September 2019 versus 8.9 in December 2018; asset-to-equity ratio at 10.3 versus 9.9 from year-end. Interest coverage ratio for the period stood at 1.5 as against 1.9 for January to September of 2018.

Capitalization

China Bank's CET 1 / Tier 1 CAR and total CAR ratios were computed at 12.73% and 13.64%, respectively. The Bank's capital is largely comprised of CET 1 / Tier 1 (core) capital.

Corporate Developments

In August, China Bank celebrated its 99th year in the banking industry with renewed commitment to deliver its promise to the banking public: “Your success is our business.” This strong customer focus has driven China Bank to continuously innovate to serve customers better, to expand its services and footprint to make banking more accessible and inclusive, and to adopt best practices to create sustainable value and build enduring customer relationships.

As a kick off to the year-long celebration towards its centennial in 2020, China Bank commenced the restoration of its original head office in Binondo.

On July 10, the Bank successfully raised P30 billion worth of funds in its maiden issue of Peso fixed rate bonds due in 2021. Six times oversubscribed, the China Bank bond has attracted 7,645 investors and is considered one of the biggest corporate issuances in a single issue to date.

For the fourth year in a row, the CFA Society Philippines named China Bank Dollar Fund as the Best Managed Fund of the Year in the long-term (Dollar FVPL) category. This year’s search for the best managed funds in various categories, CFA Society evaluated 89 participating funds from 16 investment houses and Trust institutions. China Bank has been a consistent winner since the awards program was launched in 2016, a testament to the Bank’s commitment to providing the best returns to investors.

The Bank’s investment banking house, China Bank Capital, sustained its leadership in the capital markets with its participation in various deals. It acted as the sole lead underwriter and sole bookrunner of Ayala Land Inc.’s P3-billion fixed rate bond offer, the second issuance from the property giant’s three-year securities program of up to P50 billion. In October, China Bank Capital was one of the joint lead underwriters and bookrunners for San Miguel Corp.’s P10-billion fixed-rate bonds.

Subsidiaries

The Bank's subsidiaries include China Bank Insurance Brokers, Inc., CBC Properties and Computer Center, Inc., China Bank Savings, Inc., and China Bank Capital Corporation. These subsidiaries comprised about 10% of the total consolidated resources.

- **China Bank Insurance Brokers, Inc.**

| (In Mn Pesos) | <i>Jan-Sept '19</i> | <i>Jan-Dec '18</i> | <i>Jan-Sept '18</i> |
|---------------|----------------------------|--------------------|---------------------|
| Net Income | 54 | 57 | 93 |
| Total Assets | 529 | 459 | 767 |

- **CBC Properties and Computer Center, Inc.**

| (In Mn Pesos) | <i>Jan-Sept '19</i> | <i>Jan-Dec '18</i> | <i>Jan-Sept '18</i> |
|---------------|----------------------------|--------------------|---------------------|
| Net Income | 28 | 15 | 27 |
| Total Assets | 83 | 65 | 63 |

- **China Bank Savings, Inc. (CBS)**

| (In Mn Pesos) | <i>Jan-Sept '19</i> | <i>Jan-Dec '18</i> | <i>Jan-Sept '18</i> |
|---------------|----------------------------|--------------------|---------------------|
| Net Income | 341 | 370 | 334 |
| Total Assets | 97,064 | 95,780 | 91,866 |

- **China Bank Capital Corporation**

| (In Mn Pesos) | <i>Jan-Sept '19</i> | <i>Jan-Dec '18</i> | <i>Jan-Sept '18</i> |
|---------------|----------------------------|--------------------|---------------------|
| Net Income | 124 | 368 | 201 |
| Total Assets | 2,130 | 1,986 | 1,811 |