



16 November 2020

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

PHILIPPINE DEALING & EXCHANGE CORP.

Philippine Dealing System Holdings Corp. &
Subsidiaries 29th Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City, 1227
Telephone No: 884-4446

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, 2020 filed with the Securities and Exchange Commission (SEC).

For your information and guidance.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read "A Escucha".

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

CHINA BANKING CORPORATION
8745 Paseo de Roxas corner Villar Street, Makati City, Philippines
Tel. No. 885-5555 • Fax No. 815-3169 • www.chinabank.ph

COVER SHEET

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SEC Registration Number

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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

(Company Telephone Number)

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Month Day
(Fiscal Year)

1	7	-	Q
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(Form Type)

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Month Day
(Annual Meeting)

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(Secondary License Type, If Applicable)

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

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(Amended Articles Number/Section)

1,894

Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document ID

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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, 2020

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
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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>
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Principal Financial/Accounting Officer/Controller	 <u>PATRICK D. CHENG</u>
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Signature and Title	<u>Chief Finance Officer</u>
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Date.....	<u>November 13, 2020</u>
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Part I – Financial Information

Item 1. Financial Statements

- a. **Accounting Policies and Methods of Computation.** The accompanying interim condensed consolidated financial statements of China Banking Corporation (the Parent Company) and Subsidiaries (collectively referred to as the Group) as of September 30, 2020 and for the nine-month periods ended September 30, 2020 and 2019 have been prepared in accordance with the Philippine Accounting Standard (PAS) 34, Interim Financial Reporting.

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, 2019. The financial statements are presented in Philippine peso, and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies adopted are consistent with those of the previous financial year except for the following new amendments and improvements to Philippine Financial Reporting Standards (PFRS), PAS and Philippine Interpretation which became effective as of January 1, 2020. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Group:

- Amendments to PFRS 3, *Definition of a Business*.
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*.

The comparative period September 30, 2019 was restated to consider the impact of the adoption of PFRS 16 *Leases*, which was effective January 1, 2019. The effect on the September 30, 2019 income statement follows:

Increase in Interest Expense on Lease Payable	P201,047
Increase in Depreciation Expense	499,426
Decrease in Occupancy Cost	(695,559)
Net decrease in Net Income	P4,914

- 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, 2020	December 31, 2019	Increase (Decrease)
Assets			
Cash and Other Cash Items	11,751,595	16,839,755	(5,088,160)
Due from Bangko Sentral ng Pilipinas	124,067,077	100,174,398	23,892,679
Due from Other banks	21,277,431	9,900,642	11,376,789
Financial Assets at Fair Value through Profit or Loss	13,705,915	18,500,111	(4,794,196)
Financial Assets at Fair Value through Other Comprehensive Income	16,037,250	26,133,360	(10,096,110)

Investment Securities at Amortized Cost	192,200,153	168,202,728	23,997,425
Investments in Associates	890,403	704,169	186,234
Deferred Tax Assets	5,057,805	3,370,949	1,686,856

Liabilities

Bills Payable	26,249,094	33,381,406	(7,132,312)
Manager's Checks	1,393,549	1,998,678	(605,129)
Income Tax Payable	1,063,340	540,662	522,678
Accrued Interest and Other Expenses	4,835,781	4,121,302	714,480
Derivative Liabilities	1,494,394	1,036,052	458,342
Derivative Contracts Designated as Hedges	579,273	51,949	527,324

	September 30, 2020	September 30, 2019	Increase (Decrease)
Income			
Interest on Financial Assets at FVPL	534,245	317,678	216,567
Trading and Securities Gain (Loss)	2,969,456	687,155	2,282,301
Gain on disposal of investment securities at amortized cost	906,685	401,506	505,179
Service charges, fees and commissions	1,974,268	2,363,490	(389,222)
Foreign exchange gain- net	89,660	(32,236)	121,896
Income from asset acquired	112,371	443,446	(331,075)
Miscellaneous	973,881	1,331,312	(357,431)
Expense			
Interest expense on Deposit Liabilities	8,002,275	14,744,897	(6,742,622)
Interest expense on Bills payable and other borrowings	2,605,402	1,978,874	626,528
Interest expense on Lease Payable	177,624	201,047	(23,423)
Taxes and licenses	3,105,824	2,502,687	603,138
Occupancy costs	1,144,143	1,376,918	(232,774)
Provision for impairment and credit losses	6,314,605	533,251	5,781,353
Repairs and maintenance	90,759	120,014	(29,255)
Entertainment, amusement and recreation	267,477	307,681	(40,204)

- 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.**
Issuance of Peso Fixed Rate Bonds. China Bank recently raised P15 billion from its second offering of peso fixed-rate bonds, listed on the Philippine Dealing & Exchange Corp. on October 22, 2020. Due to overwhelming demand from investors, the target issue size was met in barely a week, prompting the Bank to cut short the offer period. The two-year bonds carried a fixed rate of 2.75% per annum—the lowest of any bond currently outstanding in the domestic market— and were issued out of the Bank's P45-billion bond and commercial paper program.
- 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 June 18, 2020, the stockholders approved the declaration of ₱1.00 per share cash dividends. Cash dividend was paid on July 17, 2020.
- 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.** There are no material contingencies and other events or transactions that are material to an understanding of the current interim period.

Sale of Investment Securities at Amortized Cost

The Parent Company sold the following investment securities at amortized cost in 2020 and 2019 (figures in ₱ millions):

During the nine months ended	Reason for selling	Carrying amount	Gain on sale
September 30, 2020	A highly probable change in regulations with a potentially adverse impact to the financial assets' contractual cash flows	₱507	₱12
	A change in the funding profile of the Parent Company	698	243
	A change in the risk appetite of the Parent Company	10,684	554
	Redemption by issuer to effect its debt refinancing	2,468	136
	A potential breach in the regulatory or internal limits of the Parent Company	536	5
		<u>14,893</u>	<u>951</u>
September 30, 2019	A change in the funding profile of the Parent Company	4,820	358
	An increase in the financial assets' credit risk due to political uncertainty affecting the sovereign issuer's environment	1,145	44
		<u>5,965</u>	<u>402</u>

These disposals in the investment securities at amortized cost are consistent with the portfolios' business models with respect to the conditions and reasons for which the disposals were made.

- k. **Financial Risk Disclosure.** There were no material changes in the financial disclosure of the Group during the interim period.
- l. **Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the period.**

Centennial Stock Grant

In light of the Bank's 100th anniversary, the Board of Directors approved on August 5, 2020 a Centennial Stock Grant Plan to issue common shares to eligible grantees.

The Board also approved to delegate to the President, Chief Operating Officer and Chief Finance Officer the authority to prepare and approve the comprehensive plan consistent with the Board approval, apply for and comply with the requirements of the regulatory agencies, and perform other actions necessary in connection with the approval.

The Centennial Stock Grant Plan was approved and ratified by the stockholders on October 1, 2020, subject to the approval of the relevant regulatory agencies.

- m. **Material commitment for capital expenditures.** The Bank expects to incur capital expenditures related to the opening of new branches and technology-related investments. Funding will be sourced internally.
- n. **Fair Value Measurement.** The Group has assets and liabilities in the consolidated balance sheets that are measured at fair value on a recurring and non-recurring basis after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the consolidated balance sheet at the end of each financial reporting period. These include financial assets and liabilities at FVPL and financial assets at FVOCI.

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

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

Debt securities - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - For publicly traded equity securities, fair values are based on quoted prices. For unquoted equity securities, remeasurement to their fair values is not material to the financial statements

Loans and receivables and sales contracts receivable (SCR) included in other assets - Fair values of loans and receivables and SCR are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental lending rates for similar types of loans and receivables.

Accounts receivable, returned checks and other cash items (RCOCI) and other financial assets included in other assets - Quoted market prices are not readily available for these assets. These are reported at cost and are not significant in relation to the Group's total portfolio of securities.

Derivative instruments (included under FVPL) - Fair values are estimated based on discounted cash flows, using prevailing interest rate differential and spot exchange rates.

Deposit liabilities (time, demand and savings deposits) - Fair values of time deposits are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Group's current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Bonds payable and Bills payable - Unless quoted market prices are not readily available, fair values are estimated using the discounted cash flow methodology, where future cash flows are discounted using the current incremental borrowing rates for similar borrowings and with maturities consistent with those remaining for the liability being valued.

Manager's checks and accrued interest and other expenses - Carrying amounts approximate fair values due to the short-term nature of the accounts.

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

As of September 30, 2020 and December 31, 2019, 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, 2020		December 31, 2019 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
Financial Assets at Amortized Cost				
Government bonds	₱121,744,001	₱131,105,331	₱116,859,352	₱115,600,451
Private bonds	70,456,152	71,796,496	51,343,376	52,569,793
Loans and receivables				
Corporate and commercial loans	484,126,336	481,246,828	458,007,221	449,343,219
Consumer loans	88,246,350	103,968,572	100,104,341	105,846,151
Trade-related loans	8,798,219	10,036,332	10,766,453	11,267,769
Others	118,287	130,710	41,148	47,780
Sales contracts receivable	1,060,441	1,119,194	1,124,275	1,200,426
 Deposit liabilities	395,969,718	391,680,502	363,600,383	358,540,409
Bonds Payable	37,206,024	37,623,352	37,394,398	37,980,269

As of September 30, 2020 and December 31, 2019, the fair value hierarchy of the Group's assets and liabilities are presented below:

	September 30, 2020			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	2,538,328	699,328	-	3,237,656
Treasury notes	-	1,059,916	-	1,059,916
Treasury bills		3,436,368	-	3,436,368
Private bonds	3,403,694	10,374	-	3,414,068
Quoted equity shares	1,178,826			1,178,826
Derivative assets	-	1,379,082	-	1,379,082
Financial Assets at FVOCI				
Government bonds	4,121,983	7,856,609	-	11,978,592
Quoted private bonds	3,397,847		-	3,397,847
Quoted equity shares	642,447			642,447
	15,283,125	14,441,677	-	29,724,802
Financial liabilities at FVPL				
Derivative liabilities		1,494,394		1,494,394
Derivative contracts designated as hedges	-	579,273	-	579,273
	-	2,073,667	-	2,073,667
Fair values of assets carried at amortized cost/cost				
Investment securities at amortized cost				
Government bonds	131,105,331	-	-	131,105,331
Private bonds	71,796,496	-	-	71,796,496
Loans and receivables				
Corporate and commercial loans	-	-	481,246,828	481,246,828
Consumer loans	-	-	103,968,572	103,968,572
Trade-related loans	-	-	10,036,332	10,036,332
Others	-	-	130,710	130,710
Sales contracts receivable	-	-	1,119,194	1,119,194
Investment properties				
Land	-	-	5,205,346	5,205,346
Buildings and improvements	-	-	2,758,502	2,758,502
	202,901,827	-	604,465,484	807,367,311
Fair values of liabilities carried at amortized cost				
Deposit liabilities	-	-	391,680,502	391,680,502
Bonds Payable	-	-	37,623,352	37,623,352
	-	-	429,303,854	429,303,854

	December 31, 2019 (Audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	P5,087,179	P3,363,947	P–	P8,451,126
Treasury notes	–	2,386,226	–	2,386,226
Treasury bills	–	1,378,137	–	1,378,137
Private bonds	4,372,734	–	–	4,372,734
Quoted equity shares	1,243,938	–	–	1,243,938
Derivative assets	–	667,950	–	667,950
FVOCI financial assets				
Government bonds	3,977,446	18,563,070	–	22,540,516
Quoted private bonds	2,953,271	–	–	2,953,271
Quoted equity shares	621,208	–	–	621,208
	P18,255,776	P26,359,330	P–	P44,615,106
Financial liabilities at FVPL				
Derivative liabilities	P–	P1,036,052		P1,036,052
Derivative contracts designated as hedges		51,949		51,949
	P–	P1,088,001		P1,088,001
Fair values of assets carried at amortized cost				
Investment securities at amortized cost				
Government bonds	P115,600,451	P–		P115,600,451
Private bonds	52,569,793	–		52,569,793
Loans and receivables				
Corporate and commercial loans	–	–	449,343,219	449,343,219
Consumer loans	–	–	105,846,151	105,846,151
Trade-related loans	–	–	11,267,769	11,267,769
Others	–	–	47,780	47,780
Sales contracts receivable	–	–	1,200,426	1,200,426
Investment properties				
Land	–	–	5,199,926	5,199,926
Buildings and improvements	–	–	2,819,400	2,819,400
	P162,964,314	P–	P575,724,671	P743,894,915
Fair values of liabilities carried at amortized cost				
Deposit liabilities	P–	P–	P358,540,409	P358,540,409
Bonds Payable	–	–	37,980,269	37,980,269
	P–	P–	P396,520,678	P396,520,678

- 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 P36.21 million, and P37.18 million for the nine-month periods ended September 30, 2020 and 2019. 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, 2020	December 31, 2019 (Audited)
Balance Sheet		
Deposit in banks	P11,509	P52,757
Financial assets at FVOCI	1,187,098	1,367,210
Total market value	1,187,098	1,367,210
Number of shares held	54,579	54,688

	Nine Months Ended September 30	
	2020	2019
Income Statement		
Dividend income	P54,579	P48,030
Interest income	232	21,070

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.

Remunerations of Directors and other Key Management Personnel

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 ManCom to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	Nine Months Ended September 30	
	2020	2019
	(Unaudited)	(Unaudited)
Short-term employee benefits	P441,637	P405,065
Post-employment benefits	1,931	3,684

Members of the BOD are entitled to a per diem for attendance at each meeting of the Board or of any committees and to four percent (4.00%) of the Parent Company's net earnings, with certain deductions in accordance with BSP regulation. Non-executive directors do not receive any performance-related compensation. Directors' remuneration covers all Parent Company's Board activities and membership of committees and subsidiary companies.

The Group also provides banking services to directors and other key management personnel and persons connected to them. These transactions are presented in the tables below.

Other Related Party Transactions

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

Category	September 30, 2020		
	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		2,342,950	These are secured loans with interest rate of 5.25% and maturity of 4 years; collateral includes shares of stocks with fair value of P5.1 billion.
Issuances	—		
Repayments	(2,350)		
Deposit liabilities		1,720	These are checking accounts with annual average rate of 0.13%.
Deposits	225		
Withdrawals	—		
Subsidiaries			
Deposit Liabilities		2,381,752	These are checking accounts with annual average rate ranging from 0.13% to 1.00%.
Deposit	4,611,945		
Withdrawals	(2,711,441)		
Associates			
Deposit Liabilities		34,520	These are checking accounts with annual average rate ranging from 0.13% to 1.00%.
Deposit	145,439		
Withdrawals	(411,536)		
Key Management Personnel			
Loans		2,179	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	217		
Repayments	(650)		
Deposit Liabilities		26,271	These are checking, savings and time deposit account with annual average interest rates ranging from
Deposits	120,643		
Withdrawals	(121,381)		

Category	September 30, 2020		
	Amount / Volume	Outstanding Balance	Terms and Conditions
			0.13% to 1.00%
Other Related Parties			
Deposit Liabilities		139,066	These are checking accounts with annual average rate ranging from 0.13% to 1.00%.
Deposit	12,954,461		
Withdrawals	(12,983,480)		

Category	December 31, 2019 (Audited)		
	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans		P2,345,300	Partially secured Loans with interest rate of 2 - 5.12% and maturity of two to seven years.
Issuances	P-		
Repayments	(4,421,200)		
Deposit Liabilities		1,496	These are checking accounts with annual average rate of 0.13%.
Deposit	1,123		
Withdrawals	-		
Associates			
Deposit Liabilities		300,620	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposit	666,996		
Withdrawals	(532,748)		
Key Management Personnel			
Loans		2,612	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	2,124		
Repayments	-		
Deposit Liabilities		78,763	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%.
Deposit	255,582		
Withdrawals	(257,836)		
Other Related Parties			
Deposit Liabilities		389,714	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposit	22,632,109		
Withdrawals	(22,523,755)		

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, 2020 and September 30, 2019 are presented below:

	Significant Investor		Associate	
	September 30		September 30	
	2020	2019	2020	2019
Interest income	P92,254	P92,346	P-	P-
Interest expense	2	1	418	510

	Key Management Personnel		Other Related Parties	
	September 30		September 30	
	2020	2019	2020	2019
Interest income	P82	P9	P-	P-
Interest expense	42	25	196	153

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, 2020	December 31, 2019	Nature, Terms and Conditions
Balance Sheet			
Accounts receivable	P6,962	P1,144	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

Subsidiaries			
	September 30, 2020	December 31, 2019	Nature, Terms and Conditions
Accounts payable	16,103	12,941	This pertains to various unpaid rental to CBSI
Subsidiaries			
	September 30, 2020	September 30, 2019	Nature, Terms and Conditions
Income Statement			
Miscellaneous income	₱1,350	₱1,350	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	8,256	15,040	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	159,949	165,617	This pertains to the computer and general banking services provided by CBC-PCCI to the Parent Company to support its reporting requirements

- p. **Impact of COVID-19 Pandemic.** On March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon. The ECQ was originally set to last until April 12, 2020 but, upon the recommendation of the Inter-Agency Task Force on Emerging Infectious Disease, President Duterte extended it until April 30, 2020. On May 1, 2020, it was further extended until May 15 but only on selected places considered high-risk. On May 12, 2020, a modified ECQ was imposed on Metro Manila and selected provinces effective May 16 until May 31. Meanwhile, other areas transitioned to general community quarantine (GCQ) starting May 16. On June 1, Metro Manila and selected provinces were downgraded to GCQ, while the rest of the country was placed under modified GCQ. On August 4, Metro Manila, and the provinces of Laguna, Cavite, Rizal, and Bulacan reverted back to modified ECQ amid the rising number of COVID-19 positive cases. The MECQ lasted until August 18. On August 19, Metro Manila and selected provinces were downgraded to GCQ, while the rest of the country was placed under modified GCQ up to this date. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continues to evolve.

Going Concern Assumption

The accompanying interim condensed consolidated financial statements have been prepared under the going-concern assumption. In arriving at this assumption, the Bank currently believes that it has adequate liquidity and capital buffers, and business plans to continue to operate the business and mitigate the risks associated with COVID-19 pandemic for the next 12 months from the date of this report.

Also, the Bank anticipates that this pandemic will have a significant impact on the Bank's business, results of operations, financial condition and cash flows. The Bank will continue to monitor new developments of this pandemic and determine whether these will have an impact on the assumption of the Bank to operate as a going-concern entity.

Impairment of Non-financial Assets

With the outbreak of COVID-19 pandemic, the Bank assesses whether its nonfinancial assets are affected and may be impaired. In the case of the impairment assessment of goodwill and branch licenses, the Bank believes that the extent of the long-term impact of the pandemic cannot be reasonably ascertained as of the reporting period. The Bank will continue to monitor the situation until such time that the Bank can reasonably estimate

the impact of this pandemic in the cash flow projections and other inputs used in estimating the recoverable amount of the cash-generating unit (CGU) to which the goodwill and branch licenses relate. Where the recoverable amount is less than carrying amount of the CGU, an impairment loss will be recognized by the Bank.

Fair Value Measurement

In measuring the fair value of financial instruments, the Bank considers prices and inputs which incorporate the recent volatility in the market caused by the COVID-19 pandemic. The overall decline in market values has a significant impact on the Bank's financial assets.

Expected Credit Losses

Provision for impairment and credit losses totaled P6.3 billion. In estimating the amount of expected credit losses (ECL) for financial assets at each reporting date, judgment and estimates by management are required in determining the following:

- whether a financial asset has had a significant increase in credit risk since initial recognition;
- whether default has taken place and what comprises a default;
- macro-economic factors that are relevant in measuring a financial asset's probability of default as well as the Bank's forecast of these macro-economic factors;
- probability weights applied over a range of possible outcomes; and
- sufficiency and appropriateness of data used and relationships assumed in building the components of the Bank's expected credit loss models.

The Bank assessed that the level of ECL derived using the judgment and estimates in the aforementioned areas is reasonable based on the circumstances as of September 30, 2020 (such as the Bank's sustained loan build-up and the impact of the COVID-19 outbreak and Luzon-wide Enhanced Community Quarantine) and the nature of the Bank's loan portfolio whose majority pertains to commercial and corporate loans with retail and consumer loans comprising only a small portion (less than 20%) of the total loan portfolio.

Impact of the COVID-19 Pandemic to ECL

While the Bank has reasonably estimated the level of ECL as of this reporting period, the Bank expects that the actual impact to credit risk and ECL of the pandemic and of the government support measures will only be fully incorporated in the upcoming reporting periods, as the country continues to deal with this public health crisis and to assess the impact to the economy as a whole. With the surge of confirmed COVID-19 cases and with the implementation of the community quarantine, the Bank nonetheless captured all relevant and supportable information (which includes incorporating management overlays and adjustments such as credit reviews of specific borrowers) in estimating its ECL and provisions as of and for this reporting period, respectively.

The nature and extent of the actual impact of COVID-19 to the Bank's allowance for credit losses will be fully determined once reasonable and supportable information about current market conditions and forecasts of future economic conditions become fully available. In particular, the Bank has considered and will continue to consider the following items in assessing the level of allowance for probable losses:

- a) The impact of the disruptions caused by the pandemic and of the government support measures (e.g., grace period for payments under Bayanihan Act 1 and Bayanihan Act 2) in assessing significant increase in credit risk and defaults;
- b) The potential increase in the probabilities of default (PDs) of borrowers, particularly those in vulnerable industries which include transportation and consumer products;
- c) The effect of the existing market conditions to the value of collaterals and potential recoveries.

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

ANNEX I

(Amounts in thousands)

	September 2020	December 2019
	Unaudited	Audited
ASSETS		
Cash and Other Cash Items	P 11,751,595	16,839,755
Due from Bangko Sentral ng Pilipinas	124,067,077	100,174,398
Due from Other banks	21,277,431	9,900,642
Interbank Loans Receivable and Securities Purchased under Resale Agreements	15,367,953	17,036,460
Financial Assets at Fair Value through Profit or Loss	13,705,915	18,500,111
Financial Assets at Fair Value through Other Comprehensive Income	16,037,250	26,133,360
Investment Securities at Amortized Cost	192,193,534	168,202,728
Loans and Receivables - net	581,295,810	568,919,164
Accrued Interest Receivable	7,304,378	7,158,494
Investments in Associates	890,403	704,169
Bank Premises, Furniture, Fixtures and Equipment - net	8,453,541	9,155,234
Investment Properties	4,165,084	4,337,184
Deferred Tax Assets	5,057,805	3,370,949
Intangible Assets	3,971,934	4,066,078
Goodwill	839,748	839,748
Other Assets	6,852,029	6,887,506
	P 1,013,231,490	962,225,981
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	204,020,172	186,955,056
Savings	226,783,931	224,872,421
Time	395,969,718	363,600,383
	826,773,821	775,427,861
Bills Payable	26,249,094	33,381,406
Bonds Payable	37,206,024	37,394,398
Manager's Checks	1,393,549	1,998,678
Income Tax Payable	1,063,340	540,662
Accrued Interest and Other Expenses	4,835,781	4,121,302
Derivative Liabilities	1,494,394	1,036,052
Derivative Liabilities Designated as Hedges	579,273	51,949
Deferred Tax Liabilities	1,085,310	1,083,378
Other Liabilities	11,658,679	11,014,701
	912,339,265	866,050,387
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	3,081,456	3,598,275
Surplus	54,634,534	48,558,760
Net Unrealized Gains (Losses) on Financial Assets at FVOCI	214,099	417,576
Remeasurement Gain on Defined Benefit Asset	(361,777)	(368,531)
Remeasurement on Life Insurance Reserve of Associate	(40,288)	20,655
Cumulative translation adjustment	(57,760)	6,835
Cash Flow Hedge Reserve	(579,273)	(51,949)
	100,872,615	96,163,243
Non-controlling Interest	19,610	12,351
	100,892,225	96,175,594
	P 1,013,231,490	962,225,981

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

	September 2020	December 2019
	Unaudited	Audited
CONTINGENT ACCOUNTS		
Unused commercial letters of credit	14,495,669	18,227,610
Committed Credit Lines	25,780,401	46,506,112
Outstanding guarantees Issued	1,187,060	1,022,261
Inward bills for collection	3,014,580	4,423,799
Outward bills for collection	48,610	88,197
IRS receivable	25,832,450	26,523,850
Spot exchange bought	9,036,392	10,896,547
Spot exchange sold	8,778,074	11,965,938
Forward exchange bought	21,038,045	30,941,342
Forward exchange sold	19,534,007	18,229,910
Trust department accounts	196,465,977	169,339,175
Credit card Lines	12,204,209	11,048,767
Late deposits/payments received	359,814	525,953
Deficiency claims receivable	284,317	285,745
Standby credit commitment	3,045,363	2,200,316
Others	13,131	37,114
	341,118,098	352,262,635

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	
		2020	2019	2020	2019
INTEREST INCOME					
Loans and receivables	P	26,903,521	26,723,968	8,608,828	9,243,727
Investment securities at amortized cost and at FVOCI		7,441,984	7,562,552	2,416,055	2,738,328
Financial Assets at FVPL		534,245	317,678	170,100	17,531
Due from BSP and other banks and SPURA		800,293	772,315	278,220	269,985
		35,680,043	35,376,513	11,473,202	12,269,571
INTEREST EXPENSES					
Deposit liabilities		8,002,275	14,744,897	1,919,753	4,448,282
Bills payable and other borrowings		2,605,402	1,978,874	833,274	911,652
Lease Payable		177,624	201,047	56,862	66,008
		10,785,300	16,924,818	2,809,890	5,425,942
NET INTEREST INCOME		24,894,743	18,451,695	8,663,313	6,843,629
Trading and securities gain/(loss)		2,969,456	687,155	220,093	202,952
Gain on disposal of investment securities at amortized cost		906,685	401,506	894,401	0
Service charges, fees and commissions		1,974,268	2,363,490	714,366	814,167
Foreign exchange gain- net		89,660	(32,236)	85,887	148,469
Income from asset acquired		112,371	443,446	13,727	112,924
Miscellaneous		965,625	1,331,312	340,877	551,978
TOTAL OPERATING INCOME		31,912,808	23,646,368	10,932,664	8,674,120
Compensation and fringe benefits		5,325,853	5,007,498	2,030,898	1,680,685
Taxes and licenses		3,105,824	2,502,687	1,001,914	915,429
Occupancy costs		1,135,888	1,376,918	291,165	498,525
Depreciation and amortization		1,432,721	1,439,809	479,289	476,901
Provision for impairment and credit losses		6,314,605	533,251	1,557,002	195,288
Insurance		1,462,366	1,402,498	471,702	488,023
Repairs and maintenance		90,759	120,014	31,568	44,490
Entertainment, amusement and recreation		267,477	307,681	88,023	118,266
Miscellaneous		3,507,842	3,245,589	1,531,002	1,287,133
TOTAL OPERATING EXPENSES		22,643,334	15,935,944	7,482,562	5,704,741
INCOME BEFORE INCOME TAX		9,269,474	7,710,424	3,450,101	2,969,378
PROVISION FOR INCOME TAX		1,018,859	1,008,986	420,553	457,906
NET INCOME	P	8,250,615	6,701,439	3,029,547	2,511,472
Attributable to:					
Equity holders of the parent		8,244,855	6,695,239	3,027,241	2,508,918
Non-controlling Interest		5,760	6,199	2,307	2,556
	P	8,250,615	6,701,439	3,029,547	2,511,472
Earnings Per Share					
a. Basic		3.07	2.49	1.13	0.93
b. Diluted *		3.07	2.49	1.13	0.93
Net Income		8,244,855	6,695,239	3,027,241	2,508,918
Weighted Ave. Number of Common Shares Outstanding		2,685,900	2,685,900	2,685,900	2,685,900

* 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

(Amounts in thousands)

	For the Three Quarters Ended Sept 30		For the Quarter Ended Sept 30	
	2020	2019	2020	2019
Net Income	8,250,615	6,701,439	3,029,547	2,511,472
Other Comprehensive Income (Loss):				
<i>Items that recycle to profit or loss in subsequent periods:</i>				
Net unrealized gain (loss) on financial assets at FVOCI				
Fair value gain(loss) for the year, net of tax	2,608,465	674,863	209,237	79,514
Gains taken to profit or loss	(2,986,587)	(134,446)	(150,133)	(48,781)
Share in Other Comprehensive Income of Associate:				
Net Unrealized Gain on financial assets at FVOCI	152,957	161,778	49,941	-
Gain (loss) on Cash Flow Hedge	(527,324)	(154,564)	50,192	(154,564)
Cumulative translation adjustment	(64,742)	130,862	(42,516)	20,966
<i>Items that do not recycle to profit or loss in subsequent periods:</i>				
Net unrealized gain (loss) on financial assets at FVOCI				
Fair value gain(loss) for the year, net of tax	23,334	31,710	23,334	31,710
Remeasurement gain on defined benefit asset or liability	3,339	(136,173)	(3,551)	21,827
Remeasurement loss on life insurance reserves	(57,527)	(19,154)	(31,270)	-
Other Comprehensive Income for the year	(848,084)	554,877	105,234	(49,328)
Total Comprehensive Income for the year	7,402,530	7,256,316	3,134,781	2,462,145
Total comprehensive income attributable to:				
Equity holders of the Parent Company	7,395,271	7,247,753	3,132,582	2,459,202
Non-controlling Interest	7,260	8,563	2,199	2,943
	7,402,530	7,256,316	3,134,781	2,462,145

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

ANNEX IV

	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	Remeasurement on life insurance reserve of an associate	Cash Flow Hedge Reserve	Cumulative Translation Adjustment	Total	Minority Interest	Total Equity
Balance at December 31, 2019	26,858,998	17,122,626	3,598,275	48,558,760	417,576	(368,531)	20,655	(51,949)	6,835	96,163,244	12,351	96,175,595
Total comprehensive income for the year			-	8,244,855	(203,477)	6,754	(60,942)	(527,324)	(64,595)	7,395,271	7,260	7,402,530
Retained Earnings, appropriated			(516,819)	516,819	-	-	-	-	-	-	-	-
Cash Dividends - P1.00 per share				(2,685,900)						(2,685,900)	-	(2,685,900)
Balance at September 30, 2020	26,858,998	17,122,626	3,081,456	54,634,534	214,099	(361,777)	(40,288)	(579,273)	(57,760)	100,872,615	19,610	100,892,225
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	87,856,588
Total comprehensive income for the year				6,695,239	731,373	(154,983)	-	(154,564)	130,688	7,247,753	8,563	7,256,316
Retained Earnings, appropriated			(367,804)	367,804						-		-
Other adjustments				(15,701)						(15,701)		(15,701)
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	45,181,007	28,863	(37,936)	19,154	(154,564)	38,989	92,720,341	13,271	92,733,612

CHINA BANKING CORPORATION
STATEMENTS OF CASH FLOWS
For the periods ended

ANNEX V

	SEPTEMBER		SEPTEMBER	
	2020		2019	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	9,268,234	P	7,710,424
Adjustment to reconcile income before income tax to net cash provided operations:				
Provision for impairment and credit losses		6,314,605		533,251
Depreciation and amortization		1,433,961		1,439,809
Amortization of transaction costs on bonds payable		(188,375)		(238,561)
Realized gain on financial assets at FVOCI and investment securities at amortized cost		(3,893,272)		(1,651,349)
Share in net losses of an associate		(101,835)		(138,192)
Gain on sale of investment properties		(134,800)		(358,892)
Gain on asset foreclosures and dacion transactions		22,429		(84,554)
Operating income before changes in operating assets and liabilities		12,720,947		7,296,491
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL		4,794,196		(3,954,716)
Loans and receivables		(18,684,633)		(47,182,696)
Other assets		(779,016)		(739,197)
Increase (decrease) in the amounts of:				
Deposit liabilities		51,345,960		55,101,438
Manager's checks		(605,129)		(345,962)
Accrued interest and other expenses		714,480		368,322
Other liabilities		1,152,801		3,706,243
Net cash provided by operations		50,659,608		14,249,923
Income taxes paid		(2,181,106)		(1,691,746)
Net cash provided by operating activities		48,478,502		12,558,176
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of/Additions to:				
Net additions to bank premises, furniture, fixtures and equipment		(731,028)		(3,728,265)
Equity investments		-		(40,000)
Investment securities at amortized cost		(40,681,455)		(21,370,167)
Financial assets at fair value through other comprehensive income		(36,408,205)		(30,718,776)
Proceeds from sale of:				
Investment securities at amortized cost		14,893,293		6,389,749
Financial assets at fair value through other comprehensive income		49,490,902		7,443,715
Investment properties		105,760		386,397
Proceeds from maturity of:				
Investment securities at amortized cost		2,697,422		7,449,695
Net cash provided by (used in) investing activities		(10,633,311)		(34,187,653)
CASH FLOWS FROM FINANCING ACTIVITIES				
Availments of bills payable		102,704,970		264,621,575
Payments of bills payable		(109,837,282)		(277,929,965)
Proceeds from issuance of bonds payable		-		37,774,500
Payments of cash dividends		(2,685,900)		(2,363,592)
Payments of principal portion lease liabilities		485,823		693,469
Net cash provided by financing activities		(9,332,389)		22,795,988
NET INCREASE IN CASH AND CASH EQUIVALENTS		28,512,802		1,166,511
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		16,839,755		15,639,474
Due from Bangko Sentral ng Pilipinas		100,174,398		101,889,773
Due from Other banks		9,900,642		9,455,447
Interbank loans receivable and securities purchased under resale agreements		17,036,460		11,998,040
		143,951,255		138,982,734
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		11,751,595		12,683,297
Due from Bangko Sentral ng Pilipinas		124,067,077		101,950,887
Due from Other banks		21,277,431		10,691,886
Interbank loans receivable and securities purchased under resale agreements		15,367,953		14,823,176
	P	172,464,057	P	140,149,246
RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES				
Balance at beginning of year		70,775,804		39,826,532
Cash flows during the year				
Proceeds	103,751,094		303,022,550	
Settlement	(109,837,282)	(6,086,188)	(277,929,965)	25,092,585
Non-cash changes				
Foreign exchange movement	(1,365,889)		(626,474)	
Amortization of transaction cost	131,391	(1,234,499)	(238,561)	(865,035)
Balance as of September 30		63,455,117		64,054,082

China Banking Corporation
Aging of Loans and Receivables
September 30, 2020

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	594,903,218	574,115,208	5,738,489	6,439,395	3,484,724	4,206,960	19,869,568	918,442
Less: Allow for Probable Losses & Unamortized Discount	13,614,027							
Net Loans and Receivables	581,289,192							
Accounts Receivables	3,043,081	1,633,795	319	714,159	45,664	118,524	878,665	530,621
Less: Allowance for Probable Losses	150,024							
Net Accounts Receivables	2,893,057							
Accrued Interest Receivables	7,644,814	7,644,814						
Less: Allowance for Probable Losses	340,435							
Net Accrued Interest Receivables	7,304,378							

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 through 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 reports its primary segment information on the basis of the above-mentioned segments.

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 a measure of performance, instead of 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 of funds 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, 2020:



**PROFITABILITY REPORT BY BUSINESS SEGMENT
FOR THE PERIOD ENDING SEPTEMBER 30, 2020**

CONSOLIDATED

(Amounts in thousands of Pesos)

	LENDING BUSINESS	RETAIL BANKING BUSINESS	FINANCIAL MARKETS	OTHER BUSINESS & SUPPORT UNITS AND SUBSIDIARIES	BANKWIDE
Net interest income	19,567,635	(831,539)	3,136,786	3,021,861	24,894,743
Third Party Intersegment	(13,483,158)	13,792,063	(153,485)	(155,421)	-
Net Interest Income after Intersegment Transactions	6,084,477	12,960,524	2,983,301	2,866,441	24,894,743
Other Operating Income	645,451	1,379,764	3,952,312	1,048,794	7,026,321
Total Revenue	6,729,928	14,340,288	6,935,613	3,915,235	31,921,064
Other Operating expense	(2,778,066)	(8,421,777)	(1,594,925)	(3,543,457)	(16,338,225)
Income before Provisions and Taxes	3,951,862	5,918,510	5,340,689	371,778	15,582,839
Provision for Impairment and Credit Losses	(4,989,983)	(769,483)	(98,320)	(456,818)	(6,314,605)
Income before Income Tax	(1,038,121)	5,149,027	5,242,368	(85,041)	9,268,234
Provision for Income Tax	214,081	(11,801)	(1,013,349)	(207,789)	(1,018,859)
Net Income	(824,040)	5,137,226	4,229,019	(292,830)	8,249,375
Total Assets	444,914,217	549,951,344	296,934,847	(278,561,179)	1,013,239,229
Total Liabilities	9,686,488	618,065,459	128,342,997	156,253,300	912,348,244
Depreciation & Amortization	46,280	1,026,712	28,305	332,664	1,433,961
Capital Expenditures	16,840	38,042	2,665	115,701	173,248

Financial Soundness Indicators

<i>PROFITABILITY (%)</i>	<u>Jan – Sep 2020</u>	<u>Jan – Sep 2019</u>
Return on Average Equity	11.15	9.92
Return on Average Assets	1.11	0.99
Cost-to-Income Ratio	51	65
Net Interest Margin	3.89	3.26
<i>LIQUIDITY (%)</i>	<u>Sep 2020</u>	<u>Dec 2019</u>
Liquid Assets to Total Assets	39	37
Loans to Deposit Ratio	70	73
<i>ASSET QUALITY (%)</i>	<u>Sep 2020</u>	<u>Dec 2019</u>
Gross NPL Ratio	2.5	1.5
Non-performing Loan (NPL) Cover	104	129
<i>SOLVENCY</i>	<u>Sep 2020</u>	<u>Dec 2019</u>
Debt to Equity Ratio	9.0	9.0
Asset to Equity Ratio	10.0	10.0
Interest Coverage Ratio	1.9	1.5*
<i>CAPITAL ADEQUACY (%)</i>	<u>Sep 2020</u>	<u>Dec 2019</u>
CET 1 / Tier 1 Ratio	13.08	12.76
Total CAR	13.99	13.67

*for Jan-Sep 2019

Definition of Ratios

Profitability Ratios:

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

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/Tier 1 CAR	-	$\frac{\text{CET 1 / Tier 1 Capital}}{\text{Total Risk Weighted Assets}}$
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 2020</i></u>	<u><i>Jan – Sep 2019</i></u>
Gross Revenues	42,706	40,571
Gross Expenses	34,457	33,870
Net Income	8,249	6,701

<i>In Million Pesos</i>	<u><i>Sep 2020</i></u>	<u><i>Dec 2019</i></u>
Total Resources	1,013,239	962,226
Loan Portfolio (Net)	581,289	568,919
Total Deposits	826,774	775,428
Equity	100,891	96,176

Key Performance Indicators

<i>PROFITABILITY (%)</i>	<u><i>Jan – Sep 2020</i></u>	<u><i>Jan – Sep 2019</i></u>
Return on Average Equity	11.15	9.92
Return on Average Assets	1.11	0.99
Cost-to-Income Ratio	51	65
Net Interest Margin	3.89	3.26
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Liquid Assets to Total Assets	39	37
Loans to Deposit Ratio	70	73
<i>ASSET QUALITY (%)</i>	<u><i>Sep 2020</i></u>	<u><i>Dec 2019</i></u>
Gross NPL Ratio	2.5	1.5
Non-performing Loan (NPL) Cover	104	129
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Debt to Equity Ratio	9.0	9.0
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Interest Coverage Ratio	1.9	1.5*
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CET 1 / Tier 1 Ratio	13.08	12.76
Total CAR	13.99	13.67

*for Jan-Sep 2019

Economic Environment

3Q US GDP jumped by an annualized rate of 33% vis-à-vis previous quarter, largely driven by the recovery in household consumption and private investments. Inflation settled at 1.4% which is below the 2% target. As a result, the US Fed kept policy rates unchanged at 0% to 0.25%. On the other hand, China reported a growth of 4.9% in 3Q, mainly from the rebound in retail sales and exports.

The Philippines recorded a slower contraction of 11.5% in 3Q as lockdown restrictions eased. Net exports jumped 43.5% on account of improvement in merchandise imports. Government spending also grew 5.8%, albeit weaker than 2Q's 21.8%. However, capital formation spending dipped 41.6%, largely driven by the decline in construction and durable equipment expenditures.

Meanwhile, household consumption sunk 9.3% on the back of continued spending declines in restaurant and hotels, transportation, education and recreation, among others. Remittances contracted by 4.1% in August, while unemployment rate lowered to 10% in July from a high of 17.7% in April. Inflation for the quarter was at 2.5%, higher than last year's 1.7%.

The Monetary Board maintained the policy rate at 2.25%, as well as the reserve requirement at 12%, considering the low inflation environment amid the disruptions in global and domestic economic activity. The combined assets of the UK/B & TB industries expanded 6.2% year-on-year to P18.5 trillion. Deposits grew faster at 10.1% to P14.2 trillion, while loans growth decelerated to 2.2%, settling at P9.9 trillion, with the tighter credit standards during the pandemic. Gross NPL ratio went up to 3.5% from 2.2%, while NPL cover was steady at 94%.

Results of Operation

Analysis of Consolidated Statements of Income (unaudited) For the period ended September 30, 2020 and September 30, 2019

China Bank posted a **net income** of P8.2 billion for the first nine months of 2020 which brought the earnings higher by 23.1%. This translated to a return on equity of 11.15% and return on assets of 1.11%.

Total interest income for the nine-month period marginally increased to P35.7 billion from P35.4 billion. **Interest income from financial assets at FVPL** recorded a 68.2% increase to P534.2 million from the higher volume of securities holdings.

Total interest expense amounted to P10.8 billion, P6.1 billion or 36.3% lower than last year as **interest expenses on deposit liabilities** dropped 45.7% to P8.0 billion driven by the decline in funding cost. **Interest expenses on bills payable and other borrowings** was P626.5 million higher at P2.6 billion due to the increase in alternative funding sources, including the peso retail bonds issued in July 2019. **Lease payable** was 11.7% lower at P177.6 million from PFRS-16 related adjustments.

Net interest income improved by 34.9% to P24.9 billion, resulting in a **net interest margin** of 3.89% from 3.26% in the same period last year.

The Bank hiked its **provision for impairment and credit losses** to P6.3 billion, 12 times bigger than last year to cushion against the potential impact of the pandemic and lockdown measures on asset quality.

Total **non-interest income** rose 35.3% to P7.0 billion mainly attributable to stronger **trading and securities gain** of P3.0 billion as the Bank continued to capture market opportunities for the year. In line with the Bank's business models, the sale of government securities resulted in **gain on disposal of investment securities at amortized cost** of P906.7 million from P401.5 million last year. **Service charges, fees, and commissions** decreased by P389.2 million to P2.0 billion from lower transaction volume and waiver of selected fees. Furthermore, **income from assets acquired** was down by 74.7% to P112.4 million because of lower sales volume of foreclosed properties. Meanwhile, **foreign exchange**

gain rebounded to P89.7 million from a loss of P32.2 million because of the month-to-month movement in the Peso-Dollar exchange rate. **Miscellaneous income** totaled P973.9 million, down 26.8% from P1.3 billion due to lower bancassurance and other transaction-related revenues.

Operating expenses increased 6.1% to P16.3 billion. **Compensation and fringe benefits** increased 6.4% to P5.3 billion from salary adjustments and additional manpower complement for the year. **Taxes and licenses** were up 24.1% to P3.1 billion mainly from higher volume-related taxes. **Occupancy costs** declined 16.9% to P1.1 billion from lower year-to-date rent expenses due to some lease concessions granted to the Bank brought about by the pandemic. Likewise, **repairs and maintenance** were 24.4% lower at P90.8 million from lower expenses in technology platform upgrades & developments for the period. **Entertainment, amusement and recreation** decreased 13.1% to P267.5 million from the drop in marketing- and selling-related expenses. **Miscellaneous** went up 8.1% to P3.5 billion primarily from the increase in non-recurring expenses related to the Bank's response to the current pandemic.

Consolidated **cost-to-income ratio** significantly improved to 51% from 65%.

Financial Condition

Analysis of Consolidated Statement of Financial Condition As of September 30, 2020 (unaudited) and December 31, 2019 (audited)

Total assets reached P1.0 trillion mark, P51.0 million increase from P 962.2 billion.

Cash and other cash items fell 30.2% to P11.8 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from Bangko Sentral ng Pilipinas** increased by P23.9 billion to P124.1 billion from higher deposits with the BSP. **Due from other banks** also posted growth of P11.4 billion from the increase in deposits with correspondent banks. Meanwhile, **interbank loans receivable and securities purchased under resale agreements** decreased by 9.8% to P15.4 billion from lower placements with the BSP.

Financial assets at fair value through profit or loss (FVPL) and **financial assets at fair value through other comprehensive income (FVOCI)** posted decreases by P4.8 billion and P10.1 billion, respectively arising from the Bank's securities disposal during the period. **Investment securities at amortized cost** increased P24.0 billion or 14.3% to P192.2 billion with the growth in fixed income assets.

The Bank's liquidity ratio reached 39% from 37% last year.

Gross loan portfolio was at P594.9 billion, while **net loans** stood at P581.3 billion.

Investment in associates increased 26.5% to P890.4 million from additional contribution from the Bank's affiliate MCBLife. **Bank premises, furniture, fixture, and equipment** decreased by P702.9 million or 7.7% to P8.5 billion due to depreciation and PFRS-16 related adjustments. **Deferred tax assets** were up 50.0% to P5.1 billion, with the booking of additional provision for impairment and credit losses.

On the liabilities side, **total deposits** recorded a 6.6% build-up to P826.8 billion of which demand and savings deposits totaled P430.8 billion for a CASA ratio of 52%. **Bills payable** decreased by 21.4% to P26.2 billion from lower interbank borrowings and BSP rediscounted loans. **Manager's checks** declined 30.3% to P1.4 billion because of lower outstanding checks for negotiation. **Income tax payable** was at P1.1 billion, P522.7 million higher due to higher regular corporate income tax payable for the period. **Accrued interest and other expenses** were 17.3% larger at P4.8 billion because of the setup of accruals and payroll expenses. Change in the mark-to-market rates resulted in increases in **derivative liabilities** and **derivative liabilities designated as hedges** by P458.3 million and P527.3 million, respectively. **Other liabilities** increased by P652.9 million or 5.9% to P11.7 billion due to PFRS-16 related adjustments.

Total equity reached P100.9 billion mainly due to higher net income for the period. **Net unrealized gain on financial assets at FVOCI** amounted to P214.1 million from P417.6 million in December arising from the mark-to-market revaluation of the Bank's FVOCI securities. Meanwhile, **remeasurement gain on life insurance reserve of associate** saw a P60.9 million drop to (P40.3) million from the revaluation of legal policy reserves of the Bank's affiliate, MCBLife. **Cumulative translation adjustment** was down by P64.6 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 13.08% and 13.99%, respectively.

Total Comprehensive Income

For the period ended September 30, 2020 and September 30, 2019

The Bank recorded **total comprehensive income** of P7.4 billion during the first nine months of the year, up 2% from P 7.3 billion recorded same period of last year.

Key Performance Indicators

Profitability

The Bank posted a net income of P8.2 billion resulting in 11.15% ROE and 1.11% ROA. Cost-to-income ratio significantly improved to 51% from 65%. Net interest margin improved to 3.89% from 3.26% due to the increase in earning assets and lower cost of funds.

Liquidity

The Bank's liquidity ratio (the ratio of liquid assets to total assets) reached 39% from 37% in December 2019.

Asset Quality

Gross NPL ratio settled at 2.5% in September 2020 as non-performing loans expectedly increased due to the challenging operating environment amidst the pandemic. NPL cover for the period remains sufficient at 104%

Solvency Ratios

Debt-to-equity and asset-to-equity ratios for the first nine months were recorded at 9.0 and 10.0, respectively. Interest coverage ratio for the period stood at 1.9 as against 1.5 same period last year.

Capitalization

China Bank's CET 1 / Tier 1 CAR and total CAR ratios were computed at 13.08% and 13.99%, respectively. The Bank's capital is largely comprised of CET 1 / Tier 1 (core) capital.

Corporate Developments

China Bank listed P15-billion peso fixed rate bonds due 2022 on the Philippine Dealing & Exchange Corp. (PDEX) on October 22, 2020. The two-year bonds carried a fixed rate of 2.75% per annum and were issued out of the Bank's P45-billion bond and commercial paper program. Due to overwhelming demand from individual and institutional investors, the target issue size was met in barely a week, prompting the Bank to cut short the offer period. Proceeds from this bond offering will be used to support the Bank's strategic initiatives and expansion programs.

To commemorate China Bank's 100th anniversary this year, the Board approved a Centennial Stock Grant Plan for qualified employees of 100 China Bank shares per year of service. At the Special Stockholders' Meeting held virtually on October 1, 2020, the Bank's stockholders ratified the stock grant, which involves the issuance of up to 5.6 million shares worth P121.24 million based on the closing price as of that date. At the same meeting, Ms. Claire Ann T. Yap was elected as the Bank's fourth independent director.

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)	Jan-Sep '20	Jan-Dec '19	Jan-Sep '19
Net Income	37	57	54
Total Assets	565	494	529

▪ CBC Properties & Computer Center, Inc.

(In Mn Pesos)	Jan-Sep '20	Jan-Dec '19	Jan-Sep '19
Net Income	36	18	31
Total Assets	121	97	83

▪ China Bank Savings, Inc. (CBS)

(In Mn Pesos)	Jan-Sep '20	Jan-Dec '19	Jan-Sep '19
Net Income	337	370	341
Total Assets	95,539	102,686	97,064

▪ China Bank Capital Corporation

(In Mn Pesos)	Jan-Sep '20	Jan-Dec '19	Jan-Sep '19
Net Income	121	342	131
Total Assets	2,442	2,429	2,130