



21 October 2021

PHILIPPINE STOCK EXCHANGE, INC.

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

PHILIPPINE DEALING & EXCHANGE CORP.

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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 news release from PhilRatings, "China Bank Receives Highest Credit Rating".

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

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 <p>PhilRatings PHILIPPINE RATING SERVICES CORPORATION <i>The Pioneer Domestic Credit Rating Agency</i></p>	<p>RATING NEWS October 21, 2021</p>
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China Bank Receives Highest Credit Rating

China Banking Corporation (China Bank), one of the country's leading private universal banks (unibanks) with a strong franchise in the Chinese-Filipino market, received an issuer rating of **PRS Aaa (corp.)** from Philippine Rating Services Corporation (PhilRatings). The rating has a **Stable** Outlook.

As of June 30, 2021, China Bank was the country's seventh-largest bank based on assets. The Bank similarly ranked seventh based on deposits, and sixth based on loans.¹ The bank had 636 branches and 1,038 ATMs, as of June 30, 2021.

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

A company rated **PRS Aaa (corp.)** has a very strong capacity to meet its financial commitments relative to that of other Philippine corporates. **PRS Aaa (corp.)** is the highest corporate credit rating assigned on the PRS scale. A **Stable** Outlook, on the other hand, indicates that the rating is likely to be maintained or to remain unchanged in the next 12 months.

The rating takes into account China Bank's established track record and resiliency, and strong and experienced shareholders who have navigated the bank through various changes in the economic environment; its sound funding profile; its lower interest expense that will support short-term profit performance; and its more than satisfactory asset quality, with ample capital buffer.

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

China Bank's core banking franchise is anchored mainly on its more than 100-year history in the Philippines. The bank has successfully managed to ride out various phases of the economic cycle, including the Great Depression in 1931 and the Asian Financial Crisis in 1997.

China Bank is expected to keep its sound credit profile due to its core strengths. These strengths are seen to provide support to the Bank's resiliency and continued operations amid the "new normal". Over the medium-term, China Bank will focus on core business growth, asset quality improvement, and digital banking transformation. It is to be noted, however, that recovery is also very much dependent on how the Philippine economy, as a whole, is able to weather the COVID-19 contagion.

SM Investments Corporation (SMIC) owned 22.55% of China Bank, as of June 30, 2021. As part of the SMIC banking group, the Sy Family is considered to exercise significant influence on China Bank's strategy, goal setting, high-level policy making, and appointment of senior staff. SMIC is one of the largest Philippine conglomerates and the holding company of the SM Group, with interests in retail, property, banking, and equity investments. SMIC similarly sailed through difficult headwinds, but managed to continue its growth despite challenges in its external environment. The banking business is seen as a natural fit with the SM Group, contributing to the creation of synergies within the Group. The Group's

¹ <https://www.bsp.gov.ph/SitePages/Statistics/BSFinancialStatements.aspx>

banking business provides cash management services to SM suppliers, tenants, contactors, and consultants. Advantages enjoyed by China Bank as part of the SM Group include: priority rights to locate branches and ATMs in SM shopping malls; China Bank Savings mini-branches in SaveMore and CityMall locations, and ATMs in Alfamart stores; and the use of SM Group's retail network to promote new products.

Net income from 2019 to 2020 posted a 19.8% growth, with earnings of ₱12.07 billion recorded in 2020. Higher net interest income was attributable to a year-on-year (YoY) decline in interest expense of 38.5%, from ₱21.63 billion in 2019 to ₱13.30 billion in 2020. In particular, interest expenses on deposit liabilities decreased by 48.1% to ₱9.64 billion, driven mainly by the decline in funding cost. Going forward, share of net interest income to revenues will be higher than its share in 2019 and 2020. Driven by a large decline in interest expense, net interest income growth is expected to be sustained in 2021.

Customer deposits accounted for bulk of China Bank's funding base, with the share of deposits to liabilities of 90% for both 2019 and 2020. Low-cost, more stable current and savings accounts (CASA) comprised more than half of the bank's deposit base, and is forecasted to still be the case for 2021 and 2022.

A downward trend in China Bank's non-performing loans (NPLs) can be observed since 2015, with NPL ratio kept below 2% since 2016. In 2020, however, NPLs rose by 49.2% to ₱12.98 billion, and translated to an increase in NPL ratio of 2.3%, from 1.5% in 2019. As of June 30, 2021, NPL ratio continued to increase and was at 3.5%. Despite the increase in NPLs, asset quality is still considered more than satisfactory, relative to the Philippine banking industry's gross NPL ratio of 3.72% in January 2021 and 4.48% in June 2021.

China Bank was the country's eighth-largest bank based on capital, as of June 30, 2021.² Also, capital adequacy ratio (CAR) was 15.06% in the same period, and which was above the regulatory minimum.

² <https://www.bsp.gov.ph/SitePages/Statistics/BSFinancialStatements.aspx>