

May 12, 2017

PHILIPPINE STOCK EXCHANGE, INC.

3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention: MR. JOSE VALERIANO B. ZUÑO III
OIC - Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.

37/F Tower 1, The Enterprise Center
6766 Ayala Avenue cor Paseo de Roxas
Makati City

Attention: MS. VINA VANESSA S. SALONGA
Head, Issuer Compliance and Disclosure Department

Gentlemen:

We are pleased to furnish your good office with a copy of our SEC Form 17-Q as of March 31, 2017 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

COVER SHEET

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SEC Registration Number

C	H	I	N	A		B	A	N	K	I	N	G		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B
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(Company's Full Name)

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

Delia Marquez

(Contact Person)

885-5555

(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)

Corporation Finance Dept.

(Department Requiring this document)

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(Amended Articles Number/Section)

1,954

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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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 March 31, 2017
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) 885-5555
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>2,002,027,836</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>DELIA MARQUEZ</u>
Signature and Title	<u>First Vice President – Controllership</u>
Date.....	May 12, 2017

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, 2016.

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments to PFRS which became effective as of January 1, 2017.

Amendments to PAS 7, Statement of Cash Flows, Disclosure Initiative

The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods.

Amendments to PAS 12, Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

- 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:

	March 31, 2017	December 31, 2016	Increase (Decrease)
Assets			
Cash and Other Cash Items	8,749,659	12,010,543	(3,260,884)
Due from Other Banks	13,696,056	11,332,236	2,363,820
Interbank Loans Receivable and Securities Purchased Under Resale Agreement	6,700,000	3,451,543	3,248,457

Available-for-Sale Financial Assets	30,186,031	33,873,723	(3,687,692)
Investment in Associate	191,216	276,559	(85,343)

Liabilities

Bills Payable	14,262,054	16,954,998	(2,692,944)
Manager's Checks	2,562,256	2,029,778	532,478
Income Tax Payable	631,838	437,303	194,535
Accrued Interest and Other Expenses	2,099,034	1,868,190	230,844
Derivative Liabilities	54,741	243,198	(188,457)
Other Liabilities	4,204,139	5,533,908	(1,329,769)

	March 31, 2017	March 31, 2016	Increase (Decrease)
Income			
Interest on Loans and Receivable	5,027,275	4,176,276	850,999
Interest on Trading and investments	905,201	814,945	90,256
Trading and Securities Gain (Loss)	113,999	466,318	(352,319)
Service Charges, Fees and Commissions	533,588	460,060	73,528
Foreign Exchange Gain (Loss) - net	92,645	37,360	55,285
Income from Asset Acquired	183,711	165,246	18,465
Miscellaneous	265,605	222,504	43,101
Expense			
Interest on Deposit Liabilities	1,536,600	1,162,882	373,718
Compensation and Fringe Benefits	1,227,579	1,092,104	135,475
Taxes and Licenses	614,185	509,882	104,303
Provision for Impairment and Credit Losses	124,277	110,138	14,139
Insurance	343,354	270,076	73,278
Repairs and Maintenance	27,459	23,978	3,481
Entertainment, Amusement and Recreation	52,908	47,460	5,448

- 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.** There were no issuances, repurchases and repayments of debt and equity securities made by the issuer, except as discussed in *Item j*.
- 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 4, 2017, the stockholders approved the declaration of an 8% stock dividends and ₱0.80 per share cash dividends subject to approval by Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC) and Philippine Stocks Exchange (PSE).
- h. **Effect of Changes in the Composition of the Enterprise during the Interim Period.** On May 19, 2016, the board of directors (BOD) of China Bank Capital Corporation (CBCC) approved the acquisition of ATC Securities, Inc. (ASI). On June 29, 2016, CBCC and the stockholders of ASI signed the Share Purchase Agreement (SPA) covering the purchase of CBCC of the 100.00% shares of ASI. The stock brokerage house shall be known as China Bank Securities Corporation. On the same date, 10% of the purchase price has been paid. On February 22, 2017, the PSE approved the transfer of shares of ASI to CBCC pursuant to Article III, Section 4 of the Rules Governing Trading Rights and Trading Participants. With the regulatory approval, the Group obtained control of ASI effective February 22, 2017.
- 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. Stock Rights Offering.** On February 22, 2017, the BOD of the Parent Company approved to undertake a stock rights offering through the issuance of new shares from the unissued shares of the Parent Company's authorized capital stock in such a number as will generate the aggregate issue price of approximately P15.0 Billion to all eligible existing shareholders of the Parent Company located inside the Philippines or in jurisdiction outside the Philippines and United States where it is legal for such shareholders to participate in the offering.

Each eligible shareholder was entitled to one share, at P31.00 apiece, per 4.1375 existing common shares as of April 19. A total of 483,870,967 additional shares were listed on the PSE on May 10, raising the outstanding number of common stocks to 2.48 billion. China Bank Capital (CBCC) was appointed the issue manager, joint bookrunner, and domestic underwriter

Capital Infusion to China Bank Capital Corporation. On January 19, 2017, the BOD of CBCC approved the increase in authorized capital stock of CBCC from P500.00 million to P2.00 billion to enable CBCC to handle bigger deals. The approval was ratified by the BOD of the Parent Company on February 1, 2017. The increase in capital stock will enable CBCC to handle bigger deals.

- k. **Financial Risk Disclosure.** On April 5, 2017, the BOD affirmed the priority risk areas of the Bank considered in the 2017 ICAAP submission. In addition, the BOD also approved changes in the trigger events for the review of capital ratios MAT.

The Parent Company submitted its annually updated ICAAP document, in compliance with BSP requirements, on March 31, 2017. In the said document, the Parent Company 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 Parent Company 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. PEACe Bonds.** On October 17, 2011, the Parent Company together with seven other banks filed a joint petition against the BIR's decision to impose 20.00% FWT on PEACe bonds. The Supreme Court (SC) issued a temporary restraining order in favor of these banks on the same day and ordered these banks to place in escrow an amount equivalent to the disputed withholding tax until final decision is rendered. However, the government withheld the 20.00% FWT from the proceeds of the PEACe bonds and held it in an escrow account with the Land Bank of the Philippines.

On January 13, 2015, the SC ordered the BTr to release to the investor banks the amount corresponding to the 20% final withholding tax. On March 13, 2015, the respondents filed a motion for reconsideration and clarification. Pursuant to a resolution dated April 21, 2015 by the SC, the public filed a consolidated comment on the motions filed by the respondents.

In an en banc ruling received on October 5, 2016, the SC upheld its October 2011 decision ordering the BTr to return the P4.97 billion FWT to the petitioners and for the BTr to pay legal interest of 6.0% for failure to comply with the SC's earlier ruling in favor of the holders of the said bonds. In late October 2016, the Government filed a motion for partial reconsideration with regard to the October 2016 ruling.

In an en banc ruling received on January 17, 2017, the SC denied the motion for partial reconsideration. No further pleadings or motions shall be entertained by the SC.

On April 11, 2017, the Bureau of Treasury (BTR) paid the Parent Company together with the seven banks the withheld amount and 4% interest per annum from October 19, 2011 to April 10, 2017. Total settlement amount are paid in the form of 3-Year Retail Treasury Bonds in minimum denominations of P5,000.00 with interest of 4.25% per annum.

Increase in the Parent Company's Authorized Capital Stock. On May 4, 2017, the BOD of the Parent Company, in its constituted special meeting and the stockholders in its regular annual meeting approved the amendment of Articles of Incorporation to increase the Bank's authorized capital from P25.0 billion to P33.0 billion, subject to approval of BSP, PSE and SEC.

- 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 either internally or part of the proceeds from SRO in 2017.
- n. **Fair Value Measurement.** As of March 31, 2017 and December 31, 2016, 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:

	March 31, 2017		December 31, 2016 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
HTM financial assets				
Government bonds	P50,250,812	P48,259,508	P42,638,409	P40,492,328
Private bonds	12,755,689	12,146,469	14,766,391	14,581,086
Loans and receivables				
Corporate and commercial loans	299,825,112	283,240,901	315,140,091	294,494,449
Consumer loans	59,576,763	63,906,835	58,528,805	53,251,627
Trade-related loans	11,521,163	11,594,091	12,767,908	12,945,460
Others	366,036	473,255	390,496	309,048
Sales contracts receivable	918,489	979,307	893,084	876,406
Financial Liabilities				
Deposit liabilities	530,520,106	524,120,594	541,583,018	534,102,368
Bills payable	14,262,054	14,071,534	16,954,998	16,409,581

As of March 31, 2017 and December 31, 2016, the fair value hierarchy of the Group's assets and liabilities are presented below:

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	887,345	36,750	-	924,095
Treasury notes	2,063,859	270,942	-	2,334,801
Treasury bills	9,969	1,228,887	-	1,238,856
Private bonds	112,178	710,979	-	823,157
Financial assets designated at FVPL	2,415,879	-	-	2,415,879
Derivative assets	-	153,804	-	153,804
AFS financial assets	-			
Government bonds	12,721,142	5,950,892	-	18,672,034
Quoted private bonds	8,535,933	2,936,603	-	11,472,536
Quoted equity shares	62,941	-	-	62,941
	26,809,246	11,288,857	-	38,098,103
Financial liabilities at FVPL				
Derivative liabilities	-	57,741	-	57,741
	-	57,741	-	57,741
Fair values of assets carried at amortized cost/cost^(a)				
HTM financial assets				
Government bonds	48,259,508	-	-	48,259,508
Private bonds	12,146,469	-	-	12,146,469
Loans and receivables				
Corporate and commercial loans	-	-	283,240,901	283,240,901

	March 31, 2017			
	Level 1	Level 2	Level 3	Total
Consumer loans	-	-	63,906,835	63,906,835
Trade-related loans	-	-	11,594,091	11,594,091
Others	-	-	473,255	473,255
Sales contracts receivable	-	-	979,307	979,307
Investment properties ^(b)				
Land	-	-	6,972,178	6,972,178
Buildings and improvements	-	-	2,641,385	2,641,385
	60,405,977	-	369,807,952	430,213,929
Fair values of liabilities carried at amortized cost^(a)				
Deposit liabilities	-	-	524,120,594	524,120,594
Bills payable	-	-	14,071,534	14,071,534
	-	-	538,192,128	538,192,128
	December 31, 2016 (Audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	P2,322,038	P82,011	P-	P2,404,049
Treasury notes	307,455	724,220	-	1,031,675
Treasury bills	-	994,203	-	994,203
Private bonds	594,798	-	-	5,974,798
Financial assets designated at FVPL	2,462,886	-	-	2,462,886
Derivative assets	-	216,288	-	216,288
AFS financial assets				
Government bonds	21,822,016	-	-	21,822,016
Quoted private bonds	4,735,050	6,682,562	-	11,417,612
Quoted equity shares	80,947	-	-	80,947
	32,325,190	8,699,284	-	41,540,049
Financial liabilities at FVPL				
Derivative liabilities	-	54,741	-	54,741
	-	54,741	-	54,741
Fair values of assets carried at amortized cost/cost				
HTM financial assets				
Government bonds	40,492,328	-	-	40,492,328
Private bonds	14,581,086	-	-	14,581,086
Loans and receivables				
Corporate and commercial loans	-	-	294,494,449	294,494,449
Consumer loans	-	-	53,251,627	53,251,627
Trade-related loans	-	-	12,945,460	12,945,460
Others	-	-	309,048	309,048
Sales contracts receivable	-	-	876,406	876,406
Investment properties				
Land	-	-	6,763,387	6,763,387
Buildings and improvements	-	-	2,221,151	2,221,151
	55,073,414	-	370,861,528	425,934,942
Fair values of liabilities carried at amortized cost				
Deposit liabilities	-	-	534,102,368	534,102,368
Bills payable	-	-	16,409,581	16,409,581
	-	-	550,511,949	550,511,949

- 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 P11.06 million, and P9.93 million for the three-month periods ended March 31, 2017 and 2016. 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:

	March 31, 2017	December 31, 2016 (Audited)
Balance Sheet		
Deposit in banks	₱352,482	₱223,432
Equity investment	1,945,845	1,814,531
Total market value	1,945,845	1,814,531
Number of shares held	51,571	47,751
Three Months Ended March 31		
	2017	2016
Income Statement		
Dividend income	₱47,751	₱44,214
Interest income	954	414

AFS financial assets 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:

March 31, 2017			
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		2,710,000	These are secured loans with interest rate of 5.13% and maturity of 2.57 years; collateral includes shares of stocks with fair value of ₱5.1 billion.
Issuances	-		
Repayments	-		
Deposit liabilities		250	These are checking accounts with annual average rate of 0.13%.
Deposits	281,217		
Withdrawals	(281,189)		
Associates			
Deposit Liabilities		362,306	These are savings account with annual average interest rates ranging from 0.25% to 1.00%
Deposit	155,798		
Withdrawals	(80,160)		
Key Management Personnel			
Deposit Liabilities		20,975	These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	60,476		
Withdrawals	(55,331)		
Other Related Parties			
Deposit Liabilities		26,926	These are checking and savings account with annual average interest rates ranging from 0.13% to 1.00%
Deposit	4,059,247		
Withdrawals	(4,054,340)		
December 31, 2016 (Audited)			
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans		2,710,000	These are loans with interest rate of 5.13% and maturity of four years; collateral includes shares of stocks with fair value of ₱28.44 billion.
Issuances	-		
Repayments	-		
Deposit Liabilities		288,072	These are checking accounts with annual average rate of 0.13%
Deposit	437,486		
Withdrawals	(10,270,042)		
Associates			
Deposit Liabilities		948,449	These are savings account with annual average interest rates ranging from 0.25% to 1.00%
Deposit	437,486		
Withdrawals	(1,097,863)		
Key Management Personnel			
Loans		11,703	This includes secured and unsecured loans amounting to ₱16.12 million and ₱8.02 million, respectively. Secured loans bear annual interest rate of 6.00% and maturity of 15 years. Collateral includes real properties with fair value
Issuances	557		
Repayments	8,463		

Category	December 31, 2016 (Audited)		
	Amount / Volume	Outstanding Balance	Terms and Conditions
			of P32.82 million
Deposit Liabilities		15,830	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%
Deposit	209,071		
Withdrawals	(228,679)		
Other Related Parties			
Deposit Liabilities		22,019	These are checking and savings account with annual average interest rates ranging from 0.13% to 1.00%.
Deposit	8,122,268		
Withdrawals	(33,781,787)		

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 three-month periods ended March 31, 2017 and March 31, 2016 are presented below:

	Significant Investor		Associate	
	March 31		March 31	
	2017	2016	2017	2016
Interest income	P34,736	P138,944	P-	P-
Interest expense	-	12	799	1,513

	Key Management Personnel		Other Related Parties	
	March 31		March 31	
	2017	2016	2017	2016
Interest income	P-	P56	P-	P-
Interest expense	11	40	2	1

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			
	March 31, 2017	December 31, 2016	Nature, Terms and Conditions
Balance Sheet			
Accounts Receivable	P5,655	P5,187	This pertains to various expenses advanced by CBC in behalf of CBSI
Security Deposit	3,050	3,050	This pertains the rental deposits with CBSI for office space Leased out to the Parent Company
Accounts Payable	4,505	10,623	This pertains to various unpaid rental to CBSI
Subsidiaries			
	March 31, 2017	March 31, 2016	Nature, Terms and Conditions
Income Statement			
Miscellaneous income	P1,800	P1,800	Human resources functions provided by the Parent Company to its subsidiaries (except) CBC Forex and Unity Bank) 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	6,184	2,895	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	12	12	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)

		March 2017	December 2016
		Unaudited	Audited
ASSETS			
Cash and Other Cash Items	P	8,749,659	12,010,543
Due from Bangko Sentral ng Pilipinas		90,112,865	91,964,495
Due from Other banks		13,696,056	11,332,236
Interbank Loans Receivable and Securities Purchased under Resale Agreements		6,700,000	3,451,543
Financial Assets at Fair Value through Profit or Loss		7,890,594	7,703,899
Available-for-Sale Financial Assets		30,186,031	33,873,723
Held-to-Maturity Financial Assets		63,006,501	57,404,800
Loans and Receivables - net		371,289,074	386,827,300
Accrued Interest Receivable		2,853,806	3,014,529
Investments in Associates		191,216	276,559
Bank Premises, Furniture, Fixtures and Equipment - net		6,623,864	6,496,268
Investment Properties		5,283,389	5,349,739
Deferred Tax Assets		1,713,557	1,666,267
Intangible Assets		4,109,166	4,089,715
Goodwill		839,748	839,748
Other Assets		7,153,784	6,896,647
	P	620,399,312	633,198,011
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand		136,624,028	135,263,113
Savings		135,952,967	141,155,766
Time		257,943,111	265,164,139
		530,520,106	541,583,018
Bills Payable		14,262,054	16,954,998
Manager's Checks		2,562,256	2,029,778
Income Tax Payable		631,838	437,303
Accrued Interest and Other Expenses		2,099,034	1,868,190
Derivative Liabilities		54,741	243,198
Deferred Tax Liabilities		1,152,722	1,161,414
Other Liabilities		4,204,139	5,533,908
		555,486,889	569,811,807
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital Stock			
Common Stock - P10 par value			
Authorized - 2,500,000,000 shares			
Issued - 2,002,027,836 shares		20,020,278	20,020,278
Capital paid in excess of par value		6,987,564	6,987,564
Surplus Reserves		884,590	861,630
Surplus		38,335,941	36,889,099
Net Unrealized Gains (Losses) on available-for-sale financial assets		(1,350,605)	(1,598,600)
Remeasurement gain on defined benefit asset		55,866	253,945
Cumulative translation adjustment		(17,965)	(22,500)
		64,915,669	63,391,416
Non-controlling Interest		(3,245)	(5,212)
		64,912,424	63,386,204
	P	620,399,312	633,198,011

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

	March 2017	December 2016
	Unaudited	Audited
CONTINGENT ACCOUNTS		
Unused commercial letters of credit	20,180,517	17,801,390
Outstanding guarantees Issued	1,093,541	4,827,530
Inward bills for collection	176,231	234,588
Outward bills for collection	34,458	73,702
IRS receivable	10,065,200	10,823,400
Spot exchange bought	4,267,861	409,940
Spot exchange sold	2,709,052	558,487
Future exchange bought	7,947,893	8,922,411
Future exchange sold	9,146,539	11,267,749
Trust department accounts	108,898,280	104,373,741
Credit card Lines	8,994,568	8,883,196
Late deposits/payments received	257,239	417,559
Deficiency claims receivable	294,632	294,632
Standby credit commitment	4,528,300	3,029,782
Others	2,903,598	2,575
	181,497,909	171,920,682

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

Annex II

		MARCH	MARCH
		2017	2016
INTEREST INCOME			
Loans and receivable	P	5,027,275	4,176,276
Trading and investments		905,201	814,945
Due from BSP and other banks		176,157	183,892
		6,108,633	5,175,113
INTEREST EXPENSES			
Deposit liabilities		1,536,600	1,162,882
Bills payable and other borrowings		101,421	93,749
		1,638,021	1,256,631
NET INTEREST INCOME		4,470,611	3,918,481
Trading and securities gain/(loss)		113,999	466,318
Service charges, fees and commissions		533,588	460,060
Foreign exchange gain- net		92,645	37,360
Income from asset acquired		183,711	165,246
Miscellaneous		265,605	222,504
TOTAL OPERATING INCOME		5,660,159	5,269,970
Compensation and fringe benefits		1,227,579	1,092,104
Taxes and licenses		614,185	509,882
Occupancy costs		440,215	427,853
Depreciation and amortization		288,716	276,497
Provision for impairment and credit losses		124,277	110,138
Insurance		343,354	270,076
Repairs and maintenance		27,459	23,978
Entertainment, amusement and recreation		52,908	47,460
Miscellaneous		762,083	838,320
TOTAL OPERATING EXPENSES		3,880,775	3,596,308
INCOME BEFORE INCOME TAX		1,779,384	1,673,662
PROVISION FOR INCOME TAX		307,863	287,345
NET INCOME	P	1,471,521	1,386,317
Attributable to:			
Equity holders of the parent		1,469,801	1,388,682
Minority interest		1,720	(2,365)
	P	1,471,521	1,386,317
Earnings Per Share			
a. Basic		0.73	0.69
b. Diluted *		0.73	0.69
Net Income		1,469,801	1,388,682
Weighted Ave. Number of Common Shares Outstanding		2,002,028	2,002,028

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

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Quarters Ended March 2017 & 2016

Annex III

(Amounts in thousands)

	<u>MAR 2017</u>	<u>MAR 2016</u>
Net Income	1,471,521	1,386,317
Other Comprehensive Income:		
<i>Items that recycle to profit or loss in subsequent periods:</i>		
Net unrealized gain (loss) on available-for-sale financial assets		
Fair value gain(loss) for the year, net of tax	369,661	1,270,249
Gains taken to profit or loss	(44,576)	(334,003)
Share in Net Unrealized Loss on Available-for-sale financial Assets of an associate	(76,695)	-
Cumulative translation adjustment	4,659	(5,741)
<i>Items that do not recycle to profit or loss in subsequent periods:</i>		
Remeasurement gain on defined benefit asset or liability	(198,350)	30,980
Other Comprehensive Income for the year	54,699	961,485
Total Comprehensive Income for the year	1,526,220	2,347,802
Total comprehensive income attributable to:		
Equity holders of the Parent Company	1,524,251	2,349,857
Minority Interest	1,969	(2,055)
	1,526,220	2,347,802

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 available- for-sale financial assets	Remeasurement gain on defined benefit asset or liability	Cumulative Translation Adjustment	Total	Minority Interest	Total Equity
Balance at December 31, 2016	20,020,278	6,987,564	861,630	36,889,099	(1,598,600)	253,945	(22,500)	63,391,416	(5,212)	63,386,204
Total comprehensive income for the year	-	-	-	1,469,801	247,994	(198,079)	4,535	1,524,251	1,969	1,526,220
Transfer from Surplus to Surplus Reserves	-	-	22,960	(22,960)	-	-	-	-	-	-
Balance at March 31, 2017	20,020,278	6,987,564	884,590	38,335,941	(1,350,605)	55,866	(17,965)	64,915,669	(3,243)	64,912,424
Balance at December 31, 2015	18,537,285	6,987,564	828,406	33,800,748	(1,126,080)	183,155	(34,634)	59,176,446	(5,540)	59,170,905
Total comprehensive income for the year	-	-	-	1,388,682	935,199	31,718	(5,741)	2,349,857	(2,055)	2,347,802
Changes in surplus of subsidiaries	-	-	583	(583)	-	-	-	-	-	-
Others	-	-	-	25,009	-	-	-	25,009	-	25,009
Balance at March 31, 2016	18,537,285	6,987,564	828,990	35,213,856	(190,881)	214,873	(40,375)	61,551,312	(7,595)	61,543,717

CHINA BANKING CORPORATION
STATEMENTS OF CASH FLOWS
For the periods ended

Annex V

	MARCH		MARCH	
	2017		2016	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	1,779,384	P	1,673,662
Adjustment to reconcile income before income tax to net cash provided operations:				
Provision for probable losses		124,277		110,138
Depreciation and amortization		288,716		276,497
Unrealized Gain/Loss on AFS		247,994		935,199
Gain on sale of investment properties		(28,441)		(43,092)
Cumulative translation adjustment		4,535		(5,741)
Operating income before changes in operating assets and liabilities		2,416,465		2,946,662
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL		(186,695)		(4,316,435)
Loans and receivables		15,413,949		(8,763,626)
Other assets		(390,998)		693,599
Increase (decrease) in the amounts of:				
Deposit liabilities		(11,062,912)		13,249,755
Manager's checks		532,478		303,642
Accrued interest and other expenses		230,844		368,426
Other liabilities		(1,526,920)		(620,961)
Net cash provided by operations		5,426,210		3,861,062
Income taxes paid		(160,618)		(138,598)
Net cash provided by operating activities		5,265,591		3,722,463
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to bank premises, furniture, fixtures and equipment		(416,311)		(374,339)
Proceeds from sale of investment properties		171,845		65,235
Adjustment of minority interest		248		309
Decrease (increase) in equity investments		85,343		17,198
Decrease (increase) in the amounts of:				
AFS financial assets		3,687,692		10,923,218
HTM financial assets		(5,601,700)		(6,668,322)
Net cash provided by (used in) investing activities		(2,072,884)		3,963,300
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in bills payable		(2,692,944)		405,007
Net cash provided by financing activities		(2,692,944)		405,007
NET INCREASE IN CASH AND CASH EQUIVALENTS		499,764		8,090,770
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		12,010,543		11,377,101
Due from Bangko Sentral ng Pilipinas		91,964,495		86,318,501
Due from Other banks		11,332,236		21,243,492
Interbank loans receivable and securities purchased under resale agreements		3,451,543		0
		118,758,816		118,939,094
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		8,749,659		9,273,309
Due from Bangko Sentral ng Pilipinas		90,112,865		98,864,270
Due from Other banks		13,696,056		18,892,285
Interbank loans receivable and securities purchased under resale agreements		6,700,000		0
	P	119,258,580	P	127,029,864
RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES				
Bills payable				
December 31, 2016				16,954,998
Cash Flows				
Proceeds		24,588,511		
Settlement		(27,457,394)		(2,868,883)
Non-cash changes				
Foreign exchange movement		169,016		
Amortization of transaction cost		6,923		175,939
March 31, 2017				14,262,054

CHINA BANKING CORPORATION
AGING OF LOANS AND RECEIVABLES
March 31, 2017

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	378,412,526	370,040,956	2,426,029	661,657	732,298	3,310,180	7,130,165	1,241,406
Less: Allow for Probable Losses & Unamortized Discount	7,123,452							
Net Loans and Receivables	371,289,074							
Accounts Receivables	4,039,320	3,235,867	70,182	65,047	12,115	656,109	803,453	-
Less: Allowance for Probable Losses	299,270							
Net Accounts Receivables	3,740,050							
Accrued Interest Receivables	2,916,268	2,916,268						
Less: Allowance for Probable Losses	62,462							
Net Accrued Interest Receivables	2,853,806							

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 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 March 31, 2017:



**PROFITABILITY REPORT BY BUSINESS SEGMENT
FOR THE PERIOD ENDING MARCH 31, 2017
CONSOLIDATED
(Amounts in thousands of Pesos)**

	LENDING BUSINESS	RETAIL BANKING BUSINESS	FINANCIAL MARKETS	OTHER BUSINESS & SUPPORT UNITS	BANKWIDE
Net interest income	3,201,839	220,088	275,563	773,121	4,470,611
Third Party Intersegment	(1,894,456)	1,767,451	242,953	(115,948)	-
Net Interest Income after Intersegment Transactions	1,307,383	1,987,539	518,516	657,173	4,470,611
Other Operating Income	206,594	321,105	271,616	390,233	1,189,548
Total Revenue	1,513,977	2,308,644	790,132	1,047,406	5,660,159
Other Operating expense	(499,087)	(1,604,890)	(331,370)	(1,445,428)	(3,880,775)
Income before income tax	1,014,890	703,754	458,762	(398,022)	1,779,384
Income tax provision	54,988	-	(118,903)	(243,948)	(307,863)
Net Income	1,069,878	703,754	339,859	(641,970)	1,471,521
Total Assets	239,689,628	357,484,378	122,852,139	(99,626,833)	620,399,312
Total Liabilities	2,299,730	364,654,462	110,442,238	78,090,459	555,486,889
Depreciation & Amortization	14,272	86,716	9,965	177,763	288,716
Provision for impairment and credit losses	122,267	39,103	-	(37,093)	124,277
Capital Expenditures	26,199	61,105	23,286	83,488	194,078

ANNEX VIII

Financial Soundness Indicators

<i>PROFITABILITY (%)</i>	<u>Jan – Mar 2017</u>	<u>Jan – Mar 2016</u>
Return on Average Equity	9.15	9.23
Return on Average Assets	0.93	1.05
Cost-to-income ratio	66.37	66.15
Net Interest Margin	3.02	3.17
<i>LIQUIDITY (%)</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Liquid Assets to Total Assets	35.52	34.39
Loans to Deposit Ratio	69.99	71.43
<i>ASSET QUALITY (%)</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Gross NPL Ratio	1.93	1.86
Non-performing Loan (NPL) Cover	94.02	91.00
<i>SOLVENCY</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Debt to Equity Ratio	8.56	8.99
Asset to Equity Ratio	9.56	9.99
Interest Rate Coverage Ratio	2.09	2.33*
<i>CAPITAL ADEQUACY (%)</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
CET 1 Capital Ratio	11.97	11.30
Tier 1 Capital Ratio	11.97	11.30
Total Capital Adequacy Ratio	12.78	12.21

*for Jan-Mar 2016

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	-	$\frac{\text{Gross Loan Loss Reserves}}{\text{Gross Non-Performing Loans}}$

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 Rate 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>Jan – Mar 2017</u>	<u>Jan – Mar 2016</u>
Gross Revenues	7,298	6,526
Gross Expenses	5,826	5,140
Net Income	1,472	1,386

<i>In Million Pesos</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Total Resources	620,399	633,198
Loan Portfolio (Net)	371,289	386,827
Total Deposits	530,520	541,583
Equity	64,912	63,386

Key Performance Indicators

<i>PROFITABILITY (%)</i>	<u>Jan – Mar 2017</u>	<u>Jan – Mar 2016</u>
Return on Average Equity	9.15	9.23
Return on Average Assets	0.93	1.05
Cost to income ratio	66.37	66.15
Net Interest Margin	3.02	3.17
<i>LIQUIDITY (%)</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Liquid Assets to Total Assets	35.52	34.39
Loans to Deposit Ratio	69.99	71.43
<i>ASSET QUALITY (%)</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Gross NPL Ratio	1.93	1.86
Non-performing Loan (NPL) Cover	94.02	91.00
<i>SOLVENCY</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
Debt to Equity Ratio	8.56	8.99
Asset to Equity Ratio	9.56	9.99
Interest Rate Coverage Ratio	2.09	2.33*
<i>CAPITAL ADEQUACY (%)</i>	<u>Mar 2017</u>	<u>Dec 2016</u>
CET 1 Capital Ratio	11.97	11.30
Tier 1 Capital Ratio	11.97	11.30
Total Capital Adequacy Ratio	12.78	12.21

*for Jan-Mar 2016

Economic Environment

US GDP growth for the first quarter registered a three-year low of 0.7% amid lower investments & local government spending. The Federal Reserve raised their policy rate target to 0.75%-1.0% in March but kept it unchanged in April with the strong growth in non-farm job sectors and moderate inflation of 1.8%. The country's protectionist policy could affect the growth of its trading partners, particularly those from emerging economies. China's economy expanded 6.9%, driven by fiscal infrastructure spending and property sector boom, while the People's Bank of China raised key money market rates in response to the US Fed hike. Meanwhile, the Bank of Japan and European Central Bank maintained their accommodative monetary policy stance.

The Philippine economy showed signs of expansion, especially in the services sector, as seen in the strength of the Composite Purchasing Managers' Index which ended at 57.0 in February. Consumption growth was driven by the sustained expansion in overseas Filipino remittances (up 5.9% to USD 4.3 billion in the first two months) and BPO revenues (USD 20.0 billion for full-year 2016). Inflation for the quarter averaged 3.2% owing to rising oil and food prices. The government's budget deficit grew to P83.0 billion as the administration ramped up infrastructure spending.

Despite the higher import demand for capital goods & electronics, the country's stock of gross international reserves remained healthy at USD 80.9 billion which is sufficient to cover 8.9 months' worth of imports. Meanwhile, the currency depreciated against the US dollar by 8.1% year-on-year.

Domestic liquidity grew 11.2% in March to P9.5 trillion, supported by sustained credit demand and broadly unchanged lending standards. The BSP's Term Deposit Auction Facility remained oversubscribed given the preference for short-term placements in response to the uptick in US interest rates.

The combined assets of the UK/B & TB industry expanded 12.1% year-on-year to P13.3 trillion in February. Loans-to-deposit ratio inched up to 66.9% as loan portfolio (up 18.9%) grew faster than deposits (up 13.3%). Year-on-year, gross NPL ratio improved to 1.97%, while loan loss coverage rose to 121.1%. Major banks raised about P81 billion in fresh funds to support expansion and prepare for the implementation of Basel III and D-SIB rules. Nevertheless, the UK/B industry was well-capitalized given total CAR ratios of 15.40% (solo) and 16.15% (consolidated), which were above the regulatory minimum, despite slightly falling from the previous year's capital adequacy ratios.

Results of Operation

Analysis of Consolidated Statements of Income (unaudited) For the period ended March 31, 2017 and March 31, 2016

For January to March 2017, the Bank recorded a **net income** of P1.47 billion, 6.15% higher than the P1.39 billion recorded in the same period last year due to higher core operating income and prudent expense management, resulting in a return on equity of 9.15% and return on assets of 0.93%.

Total interest income increased 18.04% to P6.11 billion from P5.18 billion. **Interest income from loans and receivables** was up 20.38% to P5.03 billion from P4.18 billion on the back of robust year-on-year loan portfolio expansion. **Interest income from trading and investments** was 11.08% higher at P905.20 million from the year-on-year growth in securities holdings.

Total interest expense amounted to P1.64 billion, P381.39 million or 30.35% larger than last year due to the buildup in funds which include the P9.59 billion worth of LTNCDs issued in November 2016 and represented the first tranche of the Bank's P20-billion offer. **Interest expenses on deposit liabilities** increased 32.14% to P1.54 billion arising from the deposit expansion, while **interest expenses on bills payable and other borrowings** went up P7.67 million or 8.18% to P101.42 million due to larger foreign currency-denominated liabilities and financial derivatives position.

Despite the 14.09% improvement in **net interest income** to P4.47 billion, consolidated **net interest margin** slid 15 bps to 3.02% from 3.17% last year from the larger volume of high-cost funds.

Provision for impairment and credit losses totaled P124.28 million, P14.14 million or 12.84% higher year-on-year on the back of sustained loan expansion.

Total **non-interest income** declined P161.94 million or 11.98% mostly from the drag from **trading and securities gain**, which fell P352.32 million or 75.55% to P114.00 million because of rate volatility that affected both the dealership business and returns on tradable securities. Excluding trading gains, core non-interest income grew P190.38 million or 21.51% to P1.08 billion. **Service charges, fees, and commissions** grew 15.98% to P533.59 million from the upswing in investment banking fees and transaction charges. **Foreign exchange gain** increased to P92.65 million from P37.36 million because of the month-to-month movement in the Peso-Dollar exchange rate. **Income from assets acquired** improved 11.17% to P183.71 million from P165.25 million from the higher sales of foreclosed properties. **Miscellaneous income** increased 19.37% to P265.61 million from higher trust and bancassurance revenues.

Operating expenses (excluding provision for impairment and credit losses) rose 7.75% to P3.76 billion as a result of the ongoing business expansion. Cost-to-income ratio was logged at 66.37%, slightly higher than 66.15% recorded last year. **Compensation and fringe benefits** increased 12.40% to P1.23 billion from the increase in human resource complement. **Taxes and licenses** were up 20.46% to P614.19 million from higher documentary stamp tax, gross receipts tax, and other business taxes. **Insurance**, which includes PDIC premium payments, grew 27.13% to P343.35 million with the expansion in deposits. **Repairs and maintenance** were also 14.52% higher to P27.46 million due to network expansion and technology upgrade. **Entertainment, amusement and recreation** increased 11.48% to P52.91 million from the booking of larger marketing- and selling-related expenses. Meanwhile, **miscellaneous expenses** dropped 9.09% to P762.08 million primarily from the adjustments in the accrual of supervisory fees.

Financial Condition

Analysis of Consolidated Statement of Financial Condition As of March 31, 2017 (unaudited) and December 31, 2016 (audited)

Assets totaled P620.40 billion, 2.02% lower than year-end 2016 but P77.33 billion or 14.24% higher from the same period last year.

Cash and other cash items fell 27.15% to P8.75 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from other banks** expanded 20.86% to P13.70 billion from the uptick in deposits with correspondent banks. The Bank almost doubled its **interbank loans receivable and securities purchased under resale agreements** to P6.70 billion from the larger overnight placements with the BSP.

Total investment securities amounted to P101.08 billion, 2.12% higher year-to-date with **financial assets at fair value through profit & loss (FAVPL)** increasing P186.70 million or 2.42% to P7.89 billion and **held-to-maturity financial assets (HTM)** growing P5.60 billion or 9.76% to P63.01 billion. Meanwhile, **available for sale financial assets (AFS)** declined P3.69 billion to P30.19 billion due to the sale of securities. The Bank's securities portfolio accounted for 16.29% of consolidated resources, higher than the 15.63% at year-end.

Gross loan portfolio (inclusive of UDSCL) was at P378.41 billion, 3.89% lower year-to-date, while **loans (net, inclusive of UDSCL)** stood at P371.29 billion, down P15.54 billion or 4.02%. Year-on-year, gross loans expanded P52.96 billion or 16.27%, with consumer loans growing 29.7%.

Accrued interest receivable amounted to P2.85 billion, down 5.33% from the relatively smaller receivables from investment securities.

Total deposits ended at P530.52 billion, of which CASA (demand and savings deposits) totaled P272.58 billion. Low-cost funding mix of 51.38% exceeded the 2016-end ratio of 51.04%.

Bills payable dropped P2.69 billion or 15.88% to P14.26 billion after the partial pay-off of the Bank's USD 158 million syndicated loan.

Manager's checks rose 26.23% to P2.56 billion because of higher demand from branch customers. **Income tax payable** was at P631.84 million, a P194.53 million or 44.48% uptrend from the regular corporate income tax payable for the year. **Accrued interest and other expenses** were 12.36% larger at P2.10 billion because of the booking of accruals and payroll expenses. **Derivative liabilities** significantly dropped to P54.74 million from P243.20 million from lower volume of currency swaps during the period. **Other liabilities** decreased P1.33 billion to P4.20 billion mainly from lower bank acceptances and interagency liabilities.

Total equity (including minority interest) expanded to P64.91 billion, 2.41% higher than last year's P63.39 billion mainly from the P38.34 billion retained earnings booked under **surplus**. **Net unrealized loss on available-for-sale financial assets** improved 15.51% to (P1.35) billion from (P1.60) billion in December arising from the mark-to-market revaluation of the Bank's unsold securities. **Remeasurement gain on defined benefit asset or liability** registered a P198.08 million decline to P55.87 million because of actuarial adjustments to the valuations of retirement plans.

Cumulative translation adjustment improved to (P17.97) million from (P22.50) million due to the exchange rate differences arising from the conversion to base currency of income and expenses related to foreign currency-denominated positions.

The Bank's Common Equity Tier 1 (CET 1 / Tier 1) ratio and total CAR were computed at 11.97% and 12.78%, respectively. The difference was accounted for by the general loan loss provision limited to 1% of credit risk weighted assets considered as buffer for potential losses.

Total Comprehensive Income

For the period ended March 31, 2017 and March 31, 2016

The Bank recorded **total comprehensive income** of P1.53 billion for January to March, a P821.58 million drop from the P2.35 billion recorded last year largely from the P687.86 million and P229.33 million year-on-year drag in net unrealized loss on AFS investments and actuarial adjustments on the valuation of retirement plans, respectively.

Key Performance Indicators

Profitability

CHIB's net income of P1.47 billion resulted in a 9.15% ROE and 0.93% ROA given improved operating income. Cost-to-income ratio was slightly higher at 66.37% from the 66.15% due to continued business expansion. Net interest margin narrowed to 3.02% from 3.17% from higher cost of funds.

Liquidity

The Bank's liquidity ratio (the ratio of liquid assets to total assets) was higher at 35.52% from 34.39% in December 2016 because of the larger volume of investment securities.

Asset Quality

Although the volume of non-performing loans remained unchanged year-to-date, its proportion to gross loans rose to 1.93% from 1.86% in December 2016 due to the decrease in the lending book. Meanwhile, consolidated loan loss coverage ratio widened to 94.02% from 91.00%, with the Parent Bank improving to 158.89% from 153.10%.

Solvency Ratios

Debt-to-equity ratio was at 8.56 in March 2017 versus 8.99 in December 2016; asset-to-equity ratio at 9.56 versus 9.99 at year-end. Interest rate coverage ratio for the period stood at 2.09 as against 2.33 for first quarter of 2017.

Capitalization

China Bank's CET 1 / Tier 1 CAR and Total CAR ratios were registered at 11.97% and 12.78%, respectively. The Bank's capital is largely comprised of CET 1 / Tier 1 (core) capital.

Corporate Developments

China Bank successfully raised P15.0 billion in core capital through a stock rights offering which ran from April 24 to May 5. Each eligible shareholder was entitled to one share, at P31.00 apiece, per 4.1375 existing common shares as of April 19. A total of 483,870,967 additional shares were listed on the PSE on May 10, raising the outstanding number of common stocks to 2.48 billion. China Bank Capital (CBCC) was appointed the issue manager, joint bookrunner, and domestic underwriter.

The Board approved the increase in authorized capital stock of CBCC from P500.0 million to P2.0 billion, as well as the additional capital infusion from the Parent Bank amounting to P500.0 million which is expected to widen CBCC's underwriting deals. During the quarter, the investment house struck major deals with Cebu Pacific (lead arranger and bookrunner for its P4.0-billion loan facility) and Ayala Corporation (issue manager, joint lead underwriter, and joint bookrunner for its P10.0-billion retail bond issuance). As a result of its dynamic market participation, CBCC was recognized by Philippine Dealing System as one of the country's top corporate issue managers/arrangers.

In February, CBCC completed the purchase of all outstanding shares of ATC Securities, Inc., which would later be renamed China Bank Securities, the equity distribution business of the China Bank group. The brokerage firm rounded out its maiden deal as a lead arranger for Eagle Cement's P9.2-billion initial public offering slated in May.

The Bank also made improvements relative to its digital banking roadmap. Cash Management Services Division partnered with Universal Storefront Services Corp. (USSC) to enable point-of-sale (POS) cash withdrawals in selected USSC branches, while Trust Group pursued the upgrade of its business platform by teaming up with Chennai-based trust banking solutions provider, *Intellect*. In January, China Bank Savings (CBS) was distinguished the pioneer digital partner of FINTQ, the financial technology arm of PLDT Smart's Voyager, for the savings bank's innovative and digitally-anchored consumer banking approach.

The Bank likewise initiated several key management appointments: a) Executive Vice President William C. Whang as Chief Operating Officer, effective February 1; and b) First Vice President Lilian Yu as Deputy Head of the Institutional Banking Group, effective March 16.

CBS opened seven new branches during the quarter, bringing the consolidated network to a total of 548 branches complemented by 824 ATMs and alternative banking channels available 24/7.

At the annual stockholders' meeting, the shareholders approved the increase in the Bank's authorized capital stock to P33.0 billion from P25.0 billion and the declaration of 8% stock dividend and 8% cash dividend or P0.80 per share, to be paid on June 2, which translates to a 2.26% cash dividend yield given the share price of P35.40 as of May 4, 2017.

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 14% of the total consolidated resources.

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

(In Mn Pesos)	<i>Jan-Mar '17</i>	<i>Jan-Dec '16</i>	<i>Jan-Mar '16</i>
Net Income	9	71	10
Total Assets	644	685	611

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

(In Mn Pesos)	<i>Jan-Mar '17</i>	<i>Jan-Dec '16</i>	<i>Jan-Mar '16</i>
Net Income	15	9	8
Total Assets	44	40	35

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

(In Mn Pesos)	<i>Jan-Mar '17</i>	<i>Jan-Dec '16</i>	<i>Jan-Mar '16</i>
Net Income	96	234	(28)
Total Assets	84,646	81,250	73,383

- **China Bank Capital Corporation**

(In Mn Pesos)	<i>Jan-Mar '17</i>	<i>Jan-Dec '16</i>	<i>Jan-Mar '16</i>
Net Income	32	230	25
Total Assets	859	808	536