

August 14, 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 June 30, 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

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S	I	D	I	A	R	I	E	S																								

(Company's Full Name)

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

<b>Delia Marquez</b>
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(Contact Person)

<b>885-5555</b>
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(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)

<b>Corporation Finance Dept.</b>
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(Department Requiring this document)

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(Amended Articles Number/Section)

<b>1,939</b>
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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

--

Foreign

To be accomplished by SEC Personnel concerned

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SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarter period ended June 30, 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
<b><u>COMMON</u></b>	<b><u>2,485,898,803</u></b>	

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 .....	<b><u>CHINA BANKING CORPORATION</u></b>
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Principal Financial/Accounting Officer/Controller .....	<b><u>DELIA MARQUEZ</u></b>
Signature and Title .....	<u>First Vice President – Controllership</u>
Date.....	August 11, 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:

	June 30, 2017	December 31, 2016	Increase (Decrease)
<b>Assets</b>			
Cash and Other Cash Items	8,656,120	12,010,543	(3,354,423)
Interbank Loans Receivable and Securities Purchased Under Resale Agreement	9,580,945	3,451,543	6,129,402

Financial Assets at Fair Value through Profit or Loss	10,853,076	7,703,899	3,149,177
Investments in Associates	128,863	276,559	(147,696)
Other Assets	5,464,369	6,896,647	(1,432,278)
<b>Liabilities</b>			
Bills Payable	12,363,336	16,954,998	(4,591,662)
Manager's Checks	3,068,589	2,029,778	1,038,811
Accrued Interest and Other Expenses	2,102,472	1,868,190	234,282
Derivative Liabilities	67,918	243,198	(175,280)
Deferred Tax Liabilities	1,015,744	1,161,414	(145,670)
Other Liabilities	4,286,873	5,533,908	(1,247,035)
	<b>June 30,</b>	<b>June 30,</b>	<b>Increase</b>
	<b>2017</b>	<b>2016</b>	<b>(Decrease)</b>
<b>Income</b>			
Interest on Loans and Receivable	10,189,556	8,523,608	1,665,948
Interest on Trading and investments	1,900,054	1,600,926	299,128
Trading and Securities Gain (Loss)	298,725	993,517	(694,792)
Service Charges, Fees and Commissions	1,235,521	1,007,365	228,156
Foreign Exchange Gain (Loss) - net	167,939	67,822	100,117
Income from Asset Acquired	370,822	283,657	87,165
Miscellaneous	994,349	549,717	444,632
<b>Expense</b>			
Interest on Deposit Liabilities	3,020,110	2,350,333	669,777
Bills payable and other borrowings	229,720	185,983	43,737
Compensation and Fringe Benefits	2,552,510	2,290,126	262,384
Taxes and Licenses	1,190,859	1,000,523	190,336
Provision for Impairment and Credit Losses	324,403	259,072	65,331
Insurance	682,689	539,439	143,250
Repairs and Maintenance	49,759	58,366	(8,607)
Miscellaneous	1,368,761	1,204,165	164,596
Provision for Income Tax	883,198	663,428	219,770

- 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.**  
**Settlement of USD 158M loan.** The Bank paid off one year ahead the three-year US\$158 million Syndicated Loan that was originally scheduled to mature in June 2018. The strong growth in foreign currency deposits and favorable changes in market conditions enabled the Bank to raise the balance earlier than expected. The loan was paid in two tranches: US\$60 million was paid in March of this year and the remaining balance on June 29, 2017.
- Issuance of LTNCD.** On June 2, 2017, the Parent Company issued at par LTNCDs with aggregate principal amount of P6,348,000,000 due December 2, 2022, representing the second tranche of the P20 billion LTNCD approved by the BOD of the Parent Company and BSP on August 3, 2016 and October 27, 2016, respectively. The LTNCDs are included under the 'Time deposit liabilities' account. The LTNCDs bear a fixed coupon rate of 3.65% per annum, payable quarterly in arrears.
- 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 8% stock dividends and ₱0.80 per share cash dividends. Cash dividend was paid on June 2, 2017 while stock dividend is subject to approval of 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.** China Bank Securities Corporation (CBSC). 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.

On July 6, 2017, SEC approved the change of name of stock brokerage house to China Bank Securities Corporation from ATC Securities Inc. On the same day, SEC also approved the increase of authorized capital stock from P38,000,000 divided into 3,800,000 shares of the par value of P10 each, to P150,000,000 divided into 15,000,000 shares of the par value of P10 each.

- 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 to the Exchange 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 and approved by SEC on June 30, 2017. The increase in capital stock will enable CBCC to handle bigger deals.

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.

- 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.** There were no material events subsequent to the end of the interim period except as discussed in Item h.
- 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 June 30, 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:

	June 30, 2017		December 31, 2016 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets</b>				
HTM financial assets				
Government bonds	P50,266,336	P49,563,148	P42,638,409	P40,492,328
Private bonds	12,812,007	12,864,962	14,766,391	14,581,086
Loans and receivables				
Corporate and commercial loans	322,058,522	302,941,030	315,140,091	294,494,449
Consumer loans	62,443,521	59,847,856	58,528,805	53,251,627
Trade-related loans	11,050,584	11,291,787	12,767,908	12,945,460
Others	1,116,391	1,155,679	390,496	309,048
Sales contracts receivable	985,646	1,075,761	893,084	876,406
<b>Financial Liabilities</b>				
Deposit liabilities	554,039,369	546,166,626	541,583,018	534,102,368
Bills payable	12,363,336	12,228,146	16,954,998	16,409,581



As of June 30, 2017 and December 31, 2016, the fair value hierarchy of the Group's assets and liabilities are presented below:

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>				
Financial assets at FVPL				
Held-for-trading				
Government bonds	1,560,798	362,024	-	1,922,822
Treasury notes	1,302,474	1,980,198	-	3,282,672
Treasury bills	133,852	1,255,737	-	1,389,589
Private bonds	280,721	637,103	-	917,824
Financial assets designated at FVPL	3,187,512	-	-	3,187,512
Derivative assets	-	152,657	-	152,657
AFS financial assets	-			
Government bonds	12,961,439	10,991,017	-	23,952,456
Quoted private bonds	8,256,735	2,418,755	-	10,675,490
Quoted equity shares	78,702	-	-	78,702
	27,717,665	17,807,347	-	45,525,012
Financial liabilities at FVPL				
Derivative liabilities	-	243,198	-	243,198
	-	243,198	-	243,198
<b>Fair values of assets carried at amortized cost/cost<sup>(a)</sup></b>				
HTM financial assets				
Government bonds	49,563,148	-	-	49,563,148
Private bonds	12,864,962	-	-	12,864,962
Loans and receivables				
Corporate and commercial loans	-	-	302,941,030	302,941,030
Consumer loans	-	-	59,847,856	59,847,856
Trade-related loans	-	-	11,291,787	11,291,787
Others	-	-	1,155,679	1,155,679
Sales contracts receivable	-	-	1,075,761	1,075,761
Investment properties <sup>(b)</sup>				
Land	-	-	7,306,940	7,306,940
Buildings and improvements	-	-	2,646,767	2,646,767
	62,428,111	-	386,265,818	448,693,929
<b>Fair values of liabilities carried at amortized cost<sup>(a)</sup></b>				
Deposit liabilities	-	-	546,166,626	546,166,626
Bills payable	-	-	12,228,146	12,228,146
	-	-	558,394,772	558,394,772

	December 31, 2016 (Audited)			
	Level 1	Level 2	Level 3	Total
<b>Recurring fair value measurements</b>				
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	-	-	594,798
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	-	243,197	-	243,197
	-	243,197	-	243,197

December 31, 2016 (Audited)				
	Level 1	Level 2	Level 3	Total
<b>Fair values of assets carried at amortized cost/cost</b>				
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
<b>Fair values of liabilities carried at amortized cost</b>				
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 ₱22.67 million, and ₱21.24 million for the six-month periods ended June 30, 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:

	June 30, 2017	December 31, 2016 (Audited)
<b>Balance Sheet</b>		
Deposit in banks	₱ 58,242	₱223,432
Equity investment	1,806,450	1,814,531
Total market value	1,806,450	1,814,531
Number of shares held	51,571	47,751
<b>Six Months Ended June 30</b>		
	2017	2016
<b>Income Statement</b>		
Dividend income	₱47,751	₱44,214
Interest income	1,368	912

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:

June 30, 2017			
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
<b>Significant Investor</b>			
Loans and receivables		2,710,000	These are secured loans with interest rate of 5.13% and maturity of 5.12 years; collateral includes shares of stocks with fair value of ₱5.1 billion.
Issuances	-		
Repayments	-		
Deposit liabilities		373	These are checking accounts with annual average rate of 0.13%.
Deposits	1,706,384		
Withdrawals	(1,706,234)		
<b>Associates</b>			
Deposit Liabilities		275,102	These are savings account with annual average interest rates ranging from 0.25% to 1.00%
Deposit	442,502		
Withdrawals	(455,471)		
<b>Key Management Personnel</b>			
Loans		14,134	Unsecured Officer's accounts from Credit card with interest ranging 6-8% and currently maturing
Issuance	158		
Repayments	3,047		
Deposit Liabilities		24,441	These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	138,330		
Withdrawals	(129,719)		
<b>Other Related Parties</b>			
Deposit Liabilities		23,983	These are checking and savings account with annual average interest rates ranging from 0.13% to 1.00%
Deposit	7,855,138		
Withdrawals	(7,853,173)		

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 properties with fair value of ₱32.82 million
Issuances	557		
Repayments	8,463		
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 six-month periods ended June 30, 2017 and June 30, 2016 are presented below:

	Significant Investor		Associate	
	June 30			
	2017	2016	2017	2016
Interest income	P69,472	P138,944	P–	P–
Interest expense	–	10	1,502	413

  

	Key Management Personnel		Other Related Parties	
	June 30			
	2017	2016	2017	2016
Interest income	P314	P56	P–	P–
Interest expense	24	13	6	3

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			
	June 30, 2017	December 31, 2016	Nature, Terms and Conditions
<b>Balance Sheet</b>			
Accounts Receivable	<b>P 3,651</b>	P5,187	This pertains to various expenses advanced by CBC in behalf of CBSI
Security Deposit	<b>2,736</b>	3,050	This pertains the rental deposits with CBSI for office space Leased out to the Parent Company
Accounts Payable	<b>7,796</b>	10,623	This pertains to various unpaid rental to CBSI

Subsidiaries			
	June 30, 2017	June 30, 2016	Nature, Terms and Conditions
<b>Income Statement</b>			
Miscellaneous income	<b>P900</b>	P 900	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	<b>11,918</b>	13,005	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	<b>25</b>	23	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)

		June 2017	December 2016
		Unaudited	Audited
<b>ASSETS</b>			
Cash and Other Cash Items	P	8,656,120	12,010,543
Due from Bangko Sentral ng Pilipinas		94,358,454	91,964,495
Due from Other banks		12,138,986	11,332,236
Interbank Loans Receivable and Securities Purchased under Resale Agreements		9,580,945	3,451,543
Financial Assets at Fair Value through Profit or Loss		10,853,076	7,703,899
Available-for-Sale Financial Assets		34,890,361	33,873,723
Held-to-Maturity Financial Assets		63,078,343	57,404,800
Loans and Receivables - net		396,669,018	386,827,300
Accrued Interest Receivable		3,212,439	3,014,529
Investments in Associates		128,863	276,559
Bank Premises, Furniture, Fixtures and Equipment - net		6,691,900	6,496,268
Investment Properties		5,152,179	5,349,739
Deferred Tax Assets		1,685,273	1,666,267
Intangible Assets		4,108,445	4,089,715
Goodwill		839,748	839,748
Other Assets		5,464,369	6,896,647
	P	657,508,521	633,198,011
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
<b>Deposit Liabilities</b>			
Demand		144,288,324	135,263,113
Savings		140,367,525	141,155,766
Time		269,383,520	265,164,139
		554,039,369	541,583,018
Bills Payable		12,363,336	16,954,998
Manager's Checks		3,068,589	2,029,778
Income Tax Payable		449,485	437,303
Accrued Interest and Other Expenses		2,102,472	1,868,190
Derivative Liabilities		67,918	243,198
Deferred Tax Liabilities		1,015,744	1,161,414
Other Liabilities		4,286,873	5,533,908
		577,393,786	569,811,807
<b>Equity</b>			
<b>Equity Attributable to Equity Holders of the Parent Company</b>			
<b>Capital Stock</b>			
Common Stock - P10 par value			
Authorized - 25,000,000,000 shares			
Issued - 2,485,898,803 shares		24,858,988	20,020,278
Capital paid in excess of par value		17,110,902	6,987,564
Surplus Reserves		884,590	861,630
Surplus		36,484,337	36,889,099
Stock Dividend Distributable		1,988,719	-
Net Unrealized Gains (Losses) on available-for-sale financial assets		(1,291,891)	(1,598,600)
Remeasurement gain on defined benefit asset		102,876	253,945
Cumulative translation adjustment		(22,977)	(22,500)
		80,115,544	63,391,416
Non-controlling Interest		(809)	(5,212)
		80,114,735	63,386,204
	P	657,508,521	633,198,011

**CHINA BANKING CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(Amounts in thousands)*

	June 2017	December 2016
	Unaudited	Audited
<b>CONTINGENT ACCOUNTS</b>		
Unused commercial letters of credit	21,222,278	17,801,390
Outstanding guarantees Issued	513,269	4,827,530
Inward bills for collection	611,816	234,588
Outward bills for collection	60,721	73,702
IRS receivable	9,746,060	10,823,400
Spot exchange bought	5,137,624	409,940
Spot exchange sold	5,331,459	558,487
Future exchange bought	8,937,852	8,922,411
Future exchange sold	9,500,789	11,267,749
Trust department accounts	111,178,542	104,373,741
Credit card Lines	9,001,438	8,883,196
Late deposits/payments received	343,948	417,559
Deficiency claims receivable	294,632	294,632
Standby credit commitment	3,338,145	3,029,782
Others	2,648,508	2,575
	<b>187,867,079</b>	<b>171,920,682</b>

**CHINA BANKING CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

**ANNEX II**

(Amounts in thousands)

		<b>JUNE</b>	<b>JUNE</b>	<b>APRIL-JUNE</b>	<b>APRIL-JUNE</b>
		<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>INTEREST INCOME</b>					
Loans and receivable	P	10,189,556	8,523,608	5,162,282	4,347,332
Trading and investments		1,900,054	1,600,926	994,852	785,980
Due from BSP and other banks		389,972	358,812	213,815	174,920
		12,479,582	10,483,345	6,370,950	5,308,233
<b>INTEREST EXPENSES</b>					
Deposit liabilities		3,020,110	2,350,333	1,483,509	1,187,450
Bills payable and other borrowings		229,720	185,983	128,299	92,234
		3,249,830	2,536,316	1,611,808	1,279,685
<b>NET INTEREST INCOME</b>		<b>9,229,752</b>	<b>7,947,029</b>	<b>4,759,141</b>	<b>4,028,548</b>
Trading and securities gain/(loss)		298,725	993,517	184,725	527,199
Service charges, fees and commissions		1,235,521	1,007,365	701,933	547,305
Foreign exchange gain- net		167,939	67,822	75,294	30,461
Income from asset acquired		370,822	283,657	187,111	118,410
Miscellaneous		994,349	549,717	728,744	327,213
<b>TOTAL OPERATING INCOME</b>		<b>12,297,107</b>	<b>10,849,106</b>	<b>6,636,948</b>	<b>5,579,136</b>
Compensation and fringe benefits		2,552,510	2,290,126	1,324,931	1,198,022
Taxes and licenses		1,190,859	1,000,523	576,674	490,641
Occupancy costs		936,677	893,845	496,462	465,992
Depreciation and amortization		599,495	560,494	310,780	283,997
Provision for impairment and credit losses		324,403	259,072	200,126	148,934
Insurance		682,689	539,439	339,335	269,363
Repairs and maintenance		49,759	58,366	22,300	34,388
Entertainment, amusement and recreation		109,420	111,096	56,513	63,636
Miscellaneous		1,368,761	1,204,165	606,678	365,845
<b>TOTAL OPERATING EXPENSES</b>		<b>7,814,574</b>	<b>6,917,126</b>	<b>3,933,799</b>	<b>3,320,818</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>4,482,533</b>	<b>3,931,980</b>	<b>2,703,148</b>	<b>2,258,318</b>
<b>PROVISION FOR INCOME TAX</b>		883,198	663,428	575,335	376,084
<b>NET INCOME</b>	<b>P</b>	<b>3,599,335</b>	<b>3,268,552</b>	<b>2,127,813</b>	<b>1,882,235</b>
Attributable to:					
Equity holders of the parent		3,595,635	3,274,373	2,125,833	1,885,691
Minority interest		3,700	(5,821)	1,980	(3,456)
	<b>P</b>	<b>3,599,335</b>	<b>3,268,552</b>	<b>2,127,813</b>	<b>1,882,235</b>
<b>Earnings Per Share</b>					
a. Basic		1.64	1.58	0.97	0.91
b. Diluted *		1.64	1.58	0.97	0.91
Net Income		3,595,635	3,274,373	2,125,833	1,885,691
Weighted Ave. Number of Common Shares Outstanding		2,194,425	2,076,932	2,194,425	2,076,932

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

**CHINA BANKING CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**ANNEX III**

**For the Quarters Ended June 2017 & 2016**

*(Amounts in thousands)*

	<u><b>JUN 2017</b></u>	<u><b>JUN 2016</b></u>	<u><b>APR-JUN 2017</b></u>	<u><b>APR-JUN 2016</b></u>
<b>Net Income</b>	<b>3,599,335</b>	<b>3,268,552</b>	<b>2,127,813</b>	<b>1,882,235</b>
<b>Other Comprehensive Income:</b>				
<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	<b>509,661</b>	<b>2,070,265</b>	<b>140,001</b>	<b>1,468,022</b>
Gains taken to profit or loss	<b>(82,325)</b>	<b>(291,542)</b>	<b>(37,749)</b>	<b>(625,545)</b>
Share in Net Unrealized Loss on Available-for-sale financial Assets of an associate	<b>(119,936)</b>	<b>-</b>	<b>(43,241)</b>	<b>-</b>
Cumulative translation adjustment	<b>(343)</b>	<b>18,902</b>	<b>(5,002)</b>	<b>24,643</b>
<i>Items that do not recycle to profit or loss in subsequent periods:</i>				
Remeasurement gain on defined benefit asset or liability	<b>(151,189)</b>	<b>88,862</b>	<b>47,161</b>	<b>57,882</b>
<b>Other Comprehensive Income for the year</b>	<b>155,868</b>	<b>1,886,487</b>	<b>101,170</b>	<b>925,002</b>
<b>Total Comprehensive Income for the year</b>	<b>3,755,203</b>	<b>5,155,038</b>	<b>2,228,983</b>	<b>2,807,237</b>
<b>Total comprehensive income attributable to:</b>				
Equity holders of the Parent Company	<b>3,750,798</b>	<b>5,159,424</b>	<b>2,226,547</b>	<b>2,809,567</b>
Minority Interest	<b>4,405</b>	<b>(4,386)</b>	<b>2,436</b>	<b>(2,331)</b>
	<b>3,755,203</b>	<b>5,155,038</b>	<b>2,228,983</b>	<b>2,807,237</b>



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

ANNEX IV

	Capital Stock	Capital Paid in Excess of Par Value	Stock dividend Distributable	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
<b>Balance at December 31, 2016</b>	<b>20,020,278</b>	<b>6,987,564</b>	-	<b>861,631</b>	<b>36,889,100</b>	<b>(1,598,600)</b>	<b>253,945</b>	<b>(22,500)</b>	<b>63,391,418</b>	<b>(5,214)</b>	<b>63,386,204</b>
Total comprehensive income for the year	-	-	-	-	3,595,633	306,708	(151,069)	(476)	3,750,796	4,405	3,755,203
Transfer from Surplus to Surplus Reserves	-	-	-	22,959	(22,959)	-	-	-	0	-	0
Expenses related to Stock Rights Offering	-	(26,097)	-	-	-	-	-	-	(26,097)	-	(26,097)
Stock Rights Offering	4,838,710	10,149,434	-	-	-	-	-	-	14,988,144	-	14,988,144
Stock dividends - 8%	-	-	1,988,719	-	(1,988,719)	-	-	-	-	-	-
Cash Dividends - P0.80 per share	-	-	-	-	(1,988,719)	-	-	-	(1,988,719)	-	(1,988,719)
<b>Balance at June 30, 2017</b>	<b>24,858,988</b>	<b>17,110,902</b>	<b>1,988,719</b>	<b>884,590</b>	<b>36,484,337</b>	<b>(1,291,891)</b>	<b>102,876</b>	<b>(22,977)</b>	<b>80,115,544</b>	<b>(809)</b>	<b>80,114,735</b>
<b>Balance at December 31, 2015</b>	<b>18,537,285</b>	<b>6,987,564</b>	-	<b>828,406</b>	<b>33,800,748</b>	<b>(1,126,080)</b>	<b>183,155</b>	<b>(34,634)</b>	<b>59,176,446</b>	<b>(5,540)</b>	<b>59,170,905</b>
Total comprehensive income for the year	-	-	-	-	3,274,373	1,777,346	88,803	18,902	5,159,424	(4,386)	5,155,038
Additional acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-	(421)	(421)
Changes in surplus of subsidiaries	-	-	-	583	(583)	-	-	-	-	-	-
Others	-	-	-	-	(278)	-	-	-	(278)	-	(278)
Stock Dividend 8%	1,482,993	-	-	-	(1,482,993)	-	-	-	0	-	0
Cash Dividend P1.00 per share	-	-	-	-	(1,853,728)	-	-	-	(1,853,728)	-	(1,853,728)
<b>Balance at June 30, 2016</b>	<b>20,020,278</b>	<b>6,987,564</b>	-	<b>828,989</b>	<b>33,737,538</b>	<b>651,266</b>	<b>271,958</b>	<b>(15,732)</b>	<b>62,481,863</b>	<b>(10,348)</b>	<b>62,471,516</b>

**CHINA BANKING CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
For the periods ended

**ANNEX V**

	JUNE		JUNE	
	2017		2016	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax	P	4,482,533	P	3,931,980
Adjustment to reconcile income before income tax to net cash provided operations:				
Provision for probable losses		324,403		259,072
Depreciation and amortization		599,495		560,494
Unrealized Gain/Loss on AFS		306,708		1,777,346
Gain on sale of investment properties		(83,669)		(89,352)
Cumulative translation adjustment		(476)		18,902
<b>Operating income before changes in operating assets and liabilities</b>		<b>5,628,994</b>		<b>6,458,442</b>
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL		(3,149,177)		(4,308,163)
Loans and receivables		(10,166,121)		(14,523,472)
Other assets		1,076,365		(124,145)
Increase (decrease) in the amounts of:				
Deposit liabilities		12,456,351		23,358,921
Manager's checks		1,038,811		858,413
Accrued interest and other expenses		234,282		156,944
Other liabilities		(1,567,986)		598,814
Net cash provided by operations		<b>5,551,519</b>		<b>12,475,754</b>
Income taxes paid		(890,023)		(625,345)
<b>Net cash provided by operating activities</b>		<b>4,661,496</b>		<b>11,850,409</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net additions to bank premises, furniture, fixtures and equipment		(795,127)		(644,541)
Proceeds from sale of investment properties		269,433		334,215
Adjustment of minority interest		705		1,435
Decrease (increase) in equity investments		147,697		25,396
Decrease (increase) in the amounts of:				
AFS financial assets		(1,016,638)		12,262,067
HTM financial assets		(5,673,543)		(15,156,300)
Acquisition of Minority Interest		0		(421)
<b>Net cash provided by (used in) investing activities</b>		<b>(7,067,473)</b>		<b>(3,178,149)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Increase (decrease) in bills payable		(4,591,663)		306,126
Payments of cash dividend		(1,988,719)		(1,853,729)
Issuance of Stock Rights		14,962,047		
<b>Net cash provided by financing activities</b>		<b>8,381,666</b>		<b>(1,547,603)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>5,975,689</b>		<b>7,124,658</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
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
		<b>118,758,816</b>		<b>118,939,094</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
Cash and other cash items		8,656,120		8,186,647
Due from Bangko Sentral ng Pilipinas		94,358,454		83,601,490
Due from Other banks		12,138,986		15,576,513
Interbank loans receivable and securities purchased under resale agreements		9,580,945		18,699,102
	P	<b>124,734,505</b>	P	<b>126,063,752</b>
<b>RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES</b>				
<b><u>Bills payable</u></b>				
<b>December 31, 2016</b>				<b>16,954,998</b>
<b>Cash Flows</b>				
Proceeds		127,973,416		
Settlement		(135,076,682)		(7,103,266)
<b>Non-cash changes</b>				
Foreign exchange movement		2,468,739		
Amortization of transaction cost		42,865		2,511,604
<b>June 30, 2017</b>				<b>12,363,336</b>

**China Banking Corporation**  
**Aging of Loans and Receivables**  
**June 30, 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	403,677,636	394,930,989	2,849,075	826,596	654,480	3,253,337	7,583,488	1,163,159
Less: Allow for Probable Losses & Unamortized Discount	7,008,618							
<b>Net Loans and Receivables</b>	<b>396,669,018</b>							
Accounts Receivables	2,416,060	1,521,471	49,925	152,568	42,914	649,182	894,589	-
Less: Allowance for Probable Losses	298,229							
<b>Net Accounts Receivables</b>	<b>2,117,831</b>							
Accrued Interest Receivables	3,379,572	3,379,572						
Less: Allowance for Probable Losses	167,133							
<b>Net Accrued Interest Receivables</b>	<b>3,212,439</b>							

# 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 June 30, 2017:



**PROFITABILITY REPORT BY BUSINESS SEGMENT  
FOR THE PERIOD ENDING JUNE 30, 2017  
CONSOLIDATED  
(Amounts in thousands of Pesos)**

	LENDING BUSINESS	RETAIL BANKING BUSINESS	FINANCIAL MARKETS	OTHER BUSINESS & SUPPORT UNITS	BANKWIDE
Net interest income	6,462,755	459,815	718,647	1,588,535	9,229,752
Third Party Intersegment	(3,845,253)	3,637,845	466,821	(259,413)	-
Net Interest Income after Intersegment Transactions	2,617,502	4,097,660	1,185,468	1,329,122	9,229,752
Other Operating Income	581,217	676,155	588,401	1,221,582	3,067,355
Total Revenue	3,198,719	4,773,815	1,773,869	2,550,704	12,297,107
Other Operating expense	(1,027,637)	(3,111,177)	(629,801)	(3,045,959)	(7,814,574)
Income before income tax	2,171,082	1,662,638	1,144,068	(495,255)	4,482,533
Income tax provision	109,381	-	(261,708)	(730,871)	(883,198)
<b>Net Income</b>	<b>2,280,463</b>	<b>1,662,638</b>	<b>882,360</b>	<b>(1,226,126)</b>	<b>3,599,335</b>
<b>Total Assets</b>	<b>257,226,490</b>	<b>369,990,239</b>	<b>132,379,745</b>	<b>(102,087,953)</b>	<b>657,508,521</b>
<b>Total Liabilities</b>	<b>2,911,458</b>	<b>373,361,017</b>	<b>119,168,970</b>	<b>81,952,341</b>	<b>577,393,786</b>
<b>Depreciation &amp; Amortization</b>	<b>29,422</b>	<b>181,446</b>	<b>20,045</b>	<b>368,582</b>	<b>599,495</b>
<b>Provision for impairment and credit losses</b>	<b>267,481</b>	<b>102,746</b>	<b>-</b>	<b>(45,824)</b>	<b>324,403</b>
<b>Capital Expenditures</b>	<b>46,623</b>	<b>104,042</b>	<b>34,759</b>	<b>172,861</b>	<b>358,285</b>

## Financial Soundness Indicators

<i>PROFITABILITY (%)</i>	<b><u>Jan – June 2017</u></b>	<b><u>Jan – June 2016</u></b>
Return on Average Equity	<b>10.44</b>	10.74
Return on Average Assets	<b>1.13</b>	1.22
Cost-to-income ratio	<b>60.91</b>	61.37
Net Interest Margin	<b>3.07</b>	3.16
<i>LIQUIDITY (%)</i>	<b><u>June 2017</u></b>	<b><u>Dec 2016</u></b>
Liquid Assets to Total Assets	<b>35.52</b>	34.39
Loans to Deposit Ratio	<b>71.60</b>	71.43
<i>ASSET QUALITY (%)</i>	<b><u>June 2017</u></b>	<b><u>Dec 2016</u></b>
Gross NPL Ratio	<b>1.81</b>	1.86
Non-performing Loan (NPL) Cover	<b>92.85</b>	91.00
<i>SOLVENCY</i>	<b><u>June 2017</u></b>	<b><u>Dec 2016</u></b>
Debt to Equity Ratio	<b>7.21</b>	8.99
Asset to Equity Ratio	<b>8.21</b>	9.99
Interest Rate Coverage Ratio	<b>2.38</b>	2.55*
<i>CAPITAL ADEQUACY (%)</i>	<b><u>June 2017</u></b>	<b><u>Dec 2016</u></b>
CET 1 Capital Ratio	<b>14.65</b>	11.30
Tier 1 Capital Ratio	<b>14.65</b>	11.30
Total Capital Adequacy Ratio	<b>15.50</b>	12.21

\*for Jan-June 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><i>Jan – June 2017</i></u>	<u><i>Jan – June 2016</i></u>
Gross Revenues	15,547	13,385
Gross Expenses	11,948	10,117
Net Income	3,599	3,269

<i>In Million Pesos</i>	<u><i>June 2017</i></u>	<u><i>Dec 2016</i></u>
Total Resources	657,509	633,198
Loan Portfolio (Net)	396,669	386,827
Total Deposits	554,039	541,583
Equity	80,115	63,386

### Key Performance Indicators

<i>PROFITABILITY (%)</i>	<u><i>Jan – June 2017</i></u>	<u><i>Jan – June 2016</i></u>
Return on Average Equity	10.44	10.74
Return on Average Assets	1.13	1.22
Cost to income ratio	60.91	61.37
Net Interest Margin	3.07	3.16
<i>LIQUIDITY (%)</i>	<u><i>June 2017</i></u>	<u><i>Dec 2016</i></u>
Liquid Assets to Total Assets	35.52	34.39
Loans to Deposit Ratio	71.60	71.43
<i>ASSET QUALITY (%)</i>	<u><i>June 2017</i></u>	<u><i>Dec 2016</i></u>
Gross NPL Ratio	1.81	1.86
Non-performing Loan (NPL) Cover	92.85	91.00
<i>SOLVENCY</i>	<u><i>June 2017</i></u>	<u><i>Dec 2016</i></u>
Debt to Equity Ratio	7.21	8.99
Asset to Equity Ratio	8.21	9.99
Interest Rate Coverage Ratio	2.38	2.55*
<i>CAPITAL ADEQUACY (%)</i>	<u><i>June 2017</i></u>	<u><i>Dec 2016</i></u>
CET 1 Capital Ratio	14.65	11.30
Tier 1 Capital Ratio	14.65	11.30
Total Capital Adequacy Ratio	15.50	12.21

\*for Jan-June 2016



## **Economic Environment**

US economic growth rebounded to 2.6% from 1.2% in the first quarter due to the acceleration in personal consumption expenditures, exports and federal government spending. The US Federal Reserve again raised the target range for its funds rate by 25 bps to 1.0% - 1.25% in June on the back of a tight labor market despite moderate inflation of 1.4%. Concerns over the prospects of fiscal expansion and protectionism under the Trump administration have abated. Meanwhile, China's GDP growth of 6.9% met market expectations because of stronger exports and production. However, China's debt bubble and disagreement with US over major bilateral trade and economic issues could hinder its momentum. On the other hand, the Bank of Japan and the European Central Bank kept key interest rates unchanged.

On the domestic front, the economy grew at a slower pace of 6.4% during the first quarter because of the delayed implementation of the government's big-ticket infrastructure projects and slower capital formation. The public construction sector expanded by only 2%, a reversal from the 19% uptick recorded during the last quarter of 2016. Household consumption (69% of GDP) remained the largest growth contributor supported by remittances (USD 11.3 billion from January to May) and BPO revenues. The six-month average inflation rate settled at 3.1%, slightly above the midpoint of BSP's target range due to the slow pick up in oil prices.

The country's foreign reserves narrowed by 4.6% year-on-year to USD 81.3 billion (8.7 months import cover) as of June due to BSP's foreign exchange operations and debt servicing. The local currency depreciated against the greenback by 6.95% year-on-year. The market remained awash with liquidity as reflected by the 13.2% annual growth in broad money to P9.9 trillion from the sustained demand for credit from key production sectors. The BSP's Term Deposit Facility was undersubscribed by end-June as local banks channeled funds into loans and investments.

As of semester-end, the total assets of the combined UKB & TB industries expanded by 13.6% to P14.0 trillion. Loans-to-deposit ratio improved to 67.4% as loan portfolio grew faster (19.1%) than deposits (14.2%). Gross NPL ratio of 1.91% was on a downtrend, while loan loss coverage ratio stood at 119.4%. During the first semester, major banks raised about P91 billion in fresh funds, of which P75 billion was allotted to beef up capital base. CAR ratios for the UKB industry remained well-above regulatory standards at 15.04% (solo) and 15.83% (consolidated) as of March.

## Results of Operation

### Analysis of Consolidated Statements of Income (unaudited) For the period ended June 30, 2017 and June 30, 2016

For the first semester, the Bank recorded a **net income** of P3.60 billion, 10.12% higher than the P3.27 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 10.44% and return on assets of 1.13%.

**Total interest income** increased 19.04% to P12.48 billion from P10.48 billion in the same period last year. **Interest income from loans and receivables** was up 19.55% to P10.19 billion from P8.52 billion on the back of robust year-on-year loan portfolio expansion. **Interest income from trading and investments** was 18.68% higher at P1.90 billion from the year-on-year growth in securities holdings.

**Total interest expense** amounted to P3.25 billion, P713.51 million or 28.13% larger than last year due to the buildup in funds which include the P15.9 billion worth of LTNCDs issued in November 2016 and June 2017 as part of the Bank's P20-billion shelf offering. **Interest expenses on deposit liabilities** increased 28.50% to P3.02 billion arising from the deposit expansion, while **interest expenses on bills payable and other borrowings** went up P43.74 million or 23.52% to P229.72 million due to larger foreign currency-denominated liabilities and financial derivatives position.

Despite the 16.14% improvement in **net interest income** to P9.23 billion, consolidated **net interest margin** slid 9 bps to 3.07% from 3.16% last year from the larger volume of high-cost funds.

**Provision for impairment and credit losses** totaled P324.40 million, P65.33 million or 25.22% higher year-on-year on the back of significant loan expansion.

Total **non-interest income** increased by P165.28 million or 5.70% with the sustained growth momentum in fee-income business lines. Excluding volatile earnings from trading and one-off gains, core fees went up 25.07%. **Service charges, fees, and commissions** grew 22.65% to P1.24 billion from the upswing in investment banking fees, credit card commissions, and transaction charges. **Foreign exchange gain** recorded a 147.62% increase to P167.94 million because of higher deal volume underscored by month-to-month movement in the Peso-Dollar exchange rate. **Income from assets acquired** improved 30.73% to P370.82 million from P283.66 million from the higher sales of foreclosed properties. **Miscellaneous income** increased by 80.88% to P994.35 million from one-off gains during the quarter and higher trust and bancassurance revenues. Meanwhile, **trading and securities gain** declined P694.79 million or 69.93% to P298.72 million because of rate volatility that affected both the dealership business and returns on tradable securities.

**Operating expenses** (excluding provision for impairment and credit losses) rose 12.50% to P7.49 billion as a result of the ongoing business expansion, but cost-to-income ratio declined to 60.91% from 61.37% because of robust core earnings. **Compensation and fringe benefits** increased 11.46% to P2.55 billion from the increase in human resource complement. **Taxes and licenses** were up 19.02% to P1.19 billion from higher documentary stamp tax, gross receipts tax, and other business taxes. **Insurance**, which includes PDIC premium payments, grew 26.56% to P682.69 million with the expansion in deposits. **Depreciation and amortization** grew by 6.96% to P599.50 million mainly from the branch expansion and technology upgrade. **Miscellaneous expenses** went up by 13.67% or P164.60 million primarily from upward adjustments in stationery, supplies & postage and information technology-related expenses. Meanwhile, **repairs and maintenance** were down 14.75% to P49.76 million from lower repairs and renovations conducted within the period.

## Financial Condition

### Analysis of Consolidated Statement of Financial Condition As of June 30, 2017 (unaudited) and December 31, 2016 (audited)

**Assets** expanded by 3.84% to P657.51 billion with the buildup in loans and liquid assets.

**Cash and other cash items** fell 27.93% to P8.66 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from other banks** expanded 7.12% to P12.14 billion from the uptick in deposits with correspondent banks. The Bank significantly grew its **interbank loans receivable and securities purchased under resale agreements** to P9.58 billion from P3.45 billion because of larger overnight placements with the BSP.

**Total investment securities** amounted to P108.82 billion, 9.94% higher year-to-date with **financial assets at fair value through profit & loss (FAVPL)** increasing P3.15 billion or 40.88% to P10.85 billion and **held-to-maturity financial assets (HTM)** growing P5.67 billion or 9.88% to P63.08 billion. The Bank's securities portfolio accounted for 16.55% of consolidated resources, higher than the 15.63% at year-end.

**Gross loan portfolio (inclusive of UDSCL)** was at P403.68 billion, 2.52% larger year-to-date with the growth in all market segments, while **loans (net, inclusive of UDSCL)** stood at P396.67 billion, up P9.84 billion or 2.54%. Year-on-year, gross loans expanded P72.41 billion or 21.86%, with consumer loans growing 25%.

**Accrued interest receivable** amounted to P3.21 billion, up 6.57% from the receivables from investment securities. **Investment in associates** slid P147.70 million to P128.86 million with the recognition of an associate's net loss for the period. **Other assets** also dropped 20.77% to P5.46 billion mainly from the decline in accounts receivables.

**Total deposits** ended at P554.04 billion, of which CASA (demand and savings deposits) totaled P284.66 billion. Low-cost funding mix of 51.38% exceeded the 2016-end ratio of 51.04%. **Time deposits** amounting to P269.38 billion include the second tranche of LTNCDs worth P6.35 billion.

**Bills payable** dropped P4.59 billion or 27.08% to P12.36 billion from the pre-payment of the Bank's US\$ 158 million syndicated loan.

**Manager's checks** rose 51.18% to P3.07 billion because of higher demand from branch customers. **Accrued interest and other expenses** were 12.54% larger at P2.10 billion because of the booking of accruals and payroll expenses. **Derivative liabilities** significantly dropped to P67.92 million from P243.20 million from lower volume of currency swaps during the period. **Deferred tax liabilities** dropped 12.54% to P1.02 billion due to fair value adjustments in foreclosed properties. **Other liabilities** decreased P1.25 billion to P4.29 billion mainly from lower bank acceptances.

**Total equity** (including minority interest) expanded to P80.11 billion, 26.39% higher than last year's P63.39 billion mainly from the P15 billion stock rights offer (SRO) wherein the Bank issued 484 million additional common shares to eligible shareholders, boosting consolidated **capital stock** by 24.17% to P24.86 billion and **capital paid in excess of par value** by P10.12 billion to P17.11 billion. **Net unrealized loss on available-for-sale financial assets** improved 19.19% to (P1.29) 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 P151.07 million decline to P102.88 million because of actuarial adjustments to the valuations of retirement plans.

The Bank's Common Equity Tier 1 (CET 1 / Tier 1) ratio and total CAR were computed at 14.65% and 15.50%, 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 June 30, 2017 and June 30, 2016**

The Bank recorded **total comprehensive income** of P3.76 billion for January to June, a P1.40 billion drop from the P5.16 billion recorded last year largely from the P1.47 billion year-on-year drag in net unrealized loss on AFS investments

## **Key Performance Indicators**

### **Profitability**

CHIB's net income of P3.60 billion resulted in a 10.44% ROE and 1.13% ROA given robust improvements in core operating income. This also resulted in the improvement of cost-to-income ratio to 60.91% from 61.37%. Net interest margin narrowed to 3.07% from 3.16% 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 and BSP placements.

### **Asset Quality**

Non-performing loans ratio improved 5 bps to 1.81% with the P1.27 million drop in NPLs and the growth in the lending books. Meanwhile, consolidated loan loss coverage ratio improved to 92.85% from 91.00%, with the Parent Bank improving to 155.56% from 153.10%.

### **Solvency Ratios**

Debt-to-equity ratio was at 7.21 in June 2017 versus 8.99 in December 2016 with the additional capital raised from the SRO; asset-to-equity ratio at 8.21 versus 9.99 at year-end. Interest rate coverage ratio for the period stood at 2.38 as against 2.55 for first semester of 2016.

### **Capitalization**

China Bank's CET 1 / Tier 1 CAR and Total CAR ratios were registered at 14.65% and 15.50%, respectively. The Bank's capital is largely comprised of CET 1 / Tier 1 (core) capital.

## Corporate Developments

The Bank completed its stock rights offer in the second quarter with the full subscription of 484 million additional common shares amounting to P15 billion. The offer period ran from April 24 to May 5, while the PSE listing happened on May 10. China Bank Capital was appointed the issue manager, joint bookrunner, and domestic underwriter.

China Bank received a Baa2 deposit & issuer rating from *Moody's* for its sound banking fundamentals underscored by the long-standing relationship with the Filipino-Chinese community, robust capitalization due to the recent SRO, stable asset quality, and strong shareholder support. The investment grade rests at par with the sovereign rating of the Philippines and those of the country's top three banks.

At the annual stockholders' meeting last May, the Bank declared 8% stock dividends and P0.80 cash dividend per share. Total cash dividends worth P1.99 billion were paid in June, for a dividend yield of 2.18% given the share price P36.70 as of quarter-end. In the same shareholders' meeting, Ms. Margarita L. San Juan was elected as an independent director of the China Bank Group.

Following the US\$90 million pre-payment in March, the Bank fully settled its US\$ 158 million syndicated loan ahead of the June 2018 maturity. It raised additional peso-denominated funds with the issuance of LTNCD tranche 2 worth P6.35 billion in June. This follows the initial P9.58 billion tranche in November 2016 and forms part of the planned P20 billion total release.

In July, the Bank's securities brokerage firm received regulatory approval to change its name from *ATC Securities, Inc.* to *China Bank Securities Corporation*, as well as increase its capital stock to P150 million. The brokerage firm struck a landmark deal when it acted as joint issue manager, joint lead underwriter, and joint bookrunner for *Eagle Cement Corp.*'s P8.6 billion initial public offering which was 3.0x oversubscribed.

*China Bank Capital* sustained its presence in the corporate market with its growing participation in major investment banking deals which include the P7 billion bonds of *Ayala Land, Inc.* (joint lead underwriter), P10 billion corporate notes of *Vista Land & Lifescapes* (lead arranger & bookrunner), and the US\$200 million bond of *Del Monte Pacific Limited* (joint lead underwriter & bookrunner), among others. *Capital* was also conferred the "Power Deal of the Year" distinction at *The Asset's* Triple A Asia Infrastructure Awards for the P7.5 billion project finance for *GN Power Dingin (GNPD) Limited*.

Meanwhile, the thrift bank subsidiary, *China Bank Savings*, recorded a 202.97% turnaround in net income to P205.88 million with the significant expansion in retail loan portfolio, particularly teachers' loans. Its assets have grown to P87.54 billion supported by a network of 155 branches, inclusive of sales offices and business centers specializing in teachers' loans, and 158 ATMs.

The Bank was also recognized in the field of corporate governance and investor relations. At the 2016 Best of Asia Awards presented by Corporate Governance Asia, China Bank was named *Outstanding Company on Corporate Governance* and *Best Asian Director* for Chairman Hans T. Sy. It also received *Best Investor Relations Company*, *Best CEO – Investor Relations* for Mr. Ricardo R. Chua, and *Best Investor Relations Professional* for Mr. Alexander C. Escucha from the same organization at the Asian Excellence Awards. The Bank's Finacle Core Banking System, on the other hand, was lauded by The Asian Banker as Best Core Banking Implementation for medium-sized banks.

## 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)	<b><i>Jan-Jun '17</i></b>	<i>Jan-Dec '16</i>	<i>Jan-Jun '16</i>
Net Income	26	71	31
Total Assets	600	685	644

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

(In Mn Pesos)	<b><i>Jan-Jun '17</i></b>	<i>Jan-Dec '16</i>	<i>Jan-Jun '16</i>
Net Income	20	9	14
Total Assets	42	40	38

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

(In Mn Pesos)	<b><i>Jan-Jun '17</i></b>	<i>Jan-Dec '16</i>	<i>Jan-Jun '16</i>
Net Income	206	234	68
Total Assets	87,540	81,250	76,457

- **China Bank Capital Corporation**

(In Mn Pesos)	<b><i>Jan-Jun '17</i></b>	<i>Jan-Dec '16</i>	<i>Jan-Jun '16</i>
Net Income	165	230	62
Total Assets	1,500	808	572