

November 16, 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 September 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)

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)

1,934

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 September 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
<u>COMMON</u>	<u>2,485,898,803</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>
Principal Financial/Accounting Officer/Controller	 <u>DELIA MARQUEZ</u>
Signature and Title	<u>First Vice President – Controllership</u>
Date.....	November 14, 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:

	September 30, 2017	December 31, 2016	Increase (Decrease)
Assets			
Cash and Other Cash Items	8,941,075	12,010,543	(3,069,468)
Interbank Loans Receivable and Securities Purchased Under Resale Agreement	1,500,000	3,451,543	(1,951,543)

Financial Assets at Fair Value through Profit or Loss	14,365,265	7,703,899	6,661,366
Loans and Receivables - net	429,563,790	386,827,300	42,736,489
Investments in Associates	325,175	276,559	48,616

Liabilities

Bills Payable	20,878,225	16,954,998	3,923,226
Manager's Checks	2,776,372	2,029,778	746,594
Income Tax Payable	486,196	437,303	48,892
Accrued Interest and Other Expenses	2,288,305	1,868,190	420,116
Derivative Liabilities	97,618	243,198	(145,579)
Other Liabilities	4,636,141	5,533,908	(897,767)

	September 30, 2017	September 30, 2016	Increase (Decrease)
Income			
Interest on Loans and Receivable	15,752,808	13,045,699	2,707,109
Interest on Trading and investments	2,892,499	2,482,856	409,643
Trading and Securities Gain (Loss)	578,830	1,190,263	(611,433)
Service Charges, Fees and Commissions	1,804,879	1,552,901	251,979
Foreign Exchange Gain (Loss) - net	407,404	102,818	304,586
Income from Asset Acquired	541,621	484,583	57,038
Miscellaneous	1,568,727	875,272	693,455
Expense			
Interest on Deposit Liabilities	4,642,825	3,499,850	1,142,975
Compensation and Fringe Benefits	4,197,187	3,742,231	454,955
Taxes and Licenses	1,877,428	1,438,621	438,807
Occupancy costs	1,512,231	1,353,460	158,770
Depreciation and amortization	903,529	823,555	79,973
Insurance	1,014,690	825,388	189,303
Miscellaneous	1,960,381	1,640,379	320,002
Provision for Income Tax	1,166,344	937,016	229,328

- 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 an 8% stock dividends and ₱0.80 per share cash dividends. Cash dividend and Stock dividend were paid on June 2, 2017 and November 3, 2017, respectively

- 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. The increase in the Bank's authorized capital stock was subsequently approved by the BSP and SEC on August 2, 2017 and September 29, 2017, respectively.

- 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.** On October 25, 2017, the Parent Company issued additional 1,128,096 common shares at a price of 33.40 per share.
- 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 September 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:

	September 30, 2017		December 31, 2016 (Audited)	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets				
HTM financial assets				
Government bonds	P50,621,656	P50,165,509	P42,638,409	P40,492,328
Private bonds	12,456,401	12,596,166	14,766,391	14,581,086
Loans and receivables				
Corporate and commercial loans	350,529,313	326,509,853	315,140,091	294,494,449
Consumer loans	66,302,166	64,132,238	58,528,805	53,251,627
Trade-related loans	11,958,550	12,095,915	12,767,908	12,945,460
Others	773,761	807,930	390,496	309,048
Sales contracts receivable	963,851	1,084,358	893,084	876,406
Financial Liabilities				
Deposit liabilities	578,038,200	569,407,135	541,583,018	534,102,368

	September 30, 2017		December 31, 2016 (Audited)	
Bills payable	20,878,225	20,570,667	16,954,998	16,409,581

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

	September 30, 2017			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	2,027,816	261,487	-	2,289,303
Treasury notes	1,386,132	2,739,308	-	4,125,440
Treasury bills	1,007,896	1,844,726	-	2,852,622
Private bonds	897,179	728,653	-	1,625,832
Financial assets designated at FVPL	3,250,523	-	-	3,250,523
Derivative assets	-	221,543	-	221,543
AFS financial assets	-	-	-	-
Government bonds	15,397,977	10,361,524	-	25,759,501
Quoted private bonds	7,050,747	3,214,242	-	10,264,989
Quoted equity shares	79,820	-	-	79,820
	31,098,090	19,371,483	-	50,469,573
Financial liabilities at FVPL				
Derivative liabilities	-	97,618	-	97,618
	-	97,618	-	97,618
Fair values of assets carried at amortized cost/cost^(a)				
HTM financial assets				
Government bonds	50,165,509	-	-	50,165,509
Private bonds	12,596,166	-	-	12,596,166
Loans and receivables				
Corporate and commercial loans	-	-	326,509,853	326,509,853
Consumer loans	-	-	64,132,238	64,132,238
Trade-related loans	-	-	12,095,915	12,095,915
Others	-	-	807,930	807,930
Sales contracts receivable	-	-	1,084,358	1,084,358
Investment properties ^(b)				
Land	-	-	7,197,828	7,197,828
Buildings and improvements	-	-	2,431,998	2,431,998
	62,761,675	-	414,260,120	477,021,795
Fair values of liabilities carried at amortized cost^(a)				
Deposit liabilities	-	-	569,407,135	569,407,135
Bills payable	-	-	20,570,667	20,570,667
	-	-	589,977,802	589,977,802

	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	-	-	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
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 P33.37 million, and P34.43 million for the nine-month periods ended September 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:

	September 30, 2017	December 31, 2016 (Audited)
Balance Sheet		
Deposit in banks	P 48,585	P223,432
Equity investment	1,749,535	1,814,531
Total market value	1,749,535	1,814,531
Number of shares held	51,571	47,751
Nine Months Ended September 30		
	2017	2016
Income Statement		
Dividend income	P47,751	P44,214
Interest income	1,473	1,486

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:

September 30, 2017			
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans and receivables		6,711,488	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	4,001,488		
Repayments	—		
Deposit liabilities		427	These are checking accounts with annual average rate of 0.13%.
Deposits	2,342,888		
Withdrawals	(2,342,684)		
Associates			
Deposit Liabilities		29,610	These are savings account with annual average interest rates ranging from 0.25% to 1.00%
Deposit	922,872		
Withdrawals	(1,181,333)		
Key Management Personnel			
Loans		11,934	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and fully secured OEL accounts with interest of 6% & real estate property as collateral
Issuance	6,775		
Repayments	(6,543)		
Deposit Liabilities		28,284	These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00%.
Deposits	184,116		
Withdrawals	(171,662)		
Other Related Parties			
Deposit Liabilities		25,468	These are checking and savings account with annual average interest rates ranging from 0.13% to 1.00%
Deposit	12,286,488		
Withdrawals	(12,283,039)		

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 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 nine-month periods ended September 30, 2017 and September 30, 2016 are presented below:

	Significant Investor		Associate	
	September 30			
	2017	2016	2017	2016
Interest income	P117,242	P104,208	P–	P–
Interest expense	2	11	1,751	817

	Key Management Personnel		Other Related Parties	
	September 30			
	2017	2016	2017	2016
Interest income	P408	P30	P–	P–
Interest expense	33	30	9	6

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

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

	Subsidiaries		
	September 30, 2017	December 31, 2016	Nature, Terms and Conditions
Balance Sheet			
Accounts Receivable	P 5,294	P5,187	This pertains to various expenses advanced by CBC in behalf of CBSI
Security Deposit	2,736	3,050	This pertains the rental deposits with CBSI for office space Leased out to the Parent Company
Accounts Payable	12,774	10,623	This pertains to various unpaid rental to CBSI

	Subsidiaries		
	September 30, 2017	September 30, 2016	Nature, Terms and Conditions
Income Statement			
Miscellaneous income	P1,350	P 1,350	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	18,033	17,691	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	40	36	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

(Amounts in thousands)

ANNEX I

		September 2017	December 2016
		Unaudited	Audited
ASSETS			
Cash and Other Cash Items	P	8,941,075	12,010,543
Due from Bangko Sentral ng Pilipinas		98,520,187	91,964,495
Due from Other banks		12,186,789	11,332,236
Interbank Loans Receivable and Securities Purchased under Resale Agreements		1,500,000	3,451,543
Financial Assets at Fair Value through Profit or Loss		14,365,265	7,703,899
Available-for-Sale Financial Assets		36,049,372	33,873,723
Held-to-Maturity Financial Assets		63,078,057	57,404,800
Loans and Receivables - net		429,563,790	386,827,300
Accrued Interest Receivable		3,145,072	3,014,529
Investments in Associates		325,175	276,559
Bank Premises, Furniture, Fixtures and Equipment - net		6,772,590	6,496,268
Investment Properties		5,156,252	5,349,739
Deferred Tax Assets		1,799,700	1,666,267
Intangible Assets		4,103,817	4,089,715
Goodwill		839,748	839,748
Other Assets		6,396,732	6,896,647
	P	692,743,621	633,198,011
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand		145,745,847	135,263,113
Savings		160,291,510	141,155,766
Time		272,000,844	265,164,139
		578,038,200	541,583,018
Bills Payable		20,878,225	16,954,998
Manager's Checks		2,776,372	2,029,778
Income Tax Payable		486,196	437,303
Accrued Interest and Other Expenses		2,288,305	1,868,190
Derivative Liabilities		97,618	243,198
Deferred Tax Liabilities		1,159,636	1,161,414
Other Liabilities		4,636,141	5,533,908
		610,360,694	569,811,807
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital Stock			
Common Stock - P10 par value			
Authorized - 3,300,000,000 shares			
Issued - 2,485,898,803 shares		24,858,988	20,020,278
Capital paid in excess of par value		17,096,765	6,987,564
Stock Dividend Distributable		1,988,719	-
Surplus Reserves		870,781	861,630
Surplus		38,565,716	36,889,099
Net Unrealized Gains (Losses) on Available-for-Sale Financial Assets		(1,208,496)	(1,598,600)
Remeasurement Gain on Defined Benefit Asset		241,184	253,945
Cumulative Translation Adjustment		(33,651)	(22,500)
		82,380,007	63,391,416
Non-controlling Interest		2,920	(5,212)
		82,382,927	63,386,204
	P	692,743,621	633,198,011

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

	September 2017	December 2016
	Unaudited	Audited
CONTINGENT ACCOUNTS		
Unused commercial letters of credit	21,470,537	17,801,390
Outstanding guarantees Issued	290,514	4,827,530
Inward bills for collection	1,825,308	234,588
Outward bills for collection	87,248	73,702
IRS receivable	10,450,245	10,823,400
Spot exchange bought	8,694,932	409,940
Spot exchange sold	8,595,205	558,487
Future exchange bought	21,334,294	8,922,411
Future exchange sold	20,092,729	11,267,749
Trust department accounts	114,035,296	104,373,741
Credit card Lines	9,060,387	8,883,196
Late deposits/payments received	393,188	417,559
Deficiency claims receivable	291,989	294,632
Standby credit commitment	6,027,055	3,029,782
Others	3,979	2,575
	222,652,908	171,920,682

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

ANNEX II

		SEPTEMBER 2017	SEPTEMBER 2016	JULY-SEPTEMBER 2017	JULY-SEPTEMBER 2016
INTEREST INCOME					
Loans and receivable	P	15,752,808	13,045,699	5,563,252	4,522,091
Trading and investments		2,892,499	2,482,856	992,445	881,930
Due from BSP and other banks		559,087	512,973	169,114	154,161
		19,204,394	16,041,528	6,724,811	5,558,183
INTEREST EXPENSES					
Deposit liabilities		4,642,825	3,499,850	1,622,715	1,149,517
Bills payable and other borrowings		299,474	285,289	69,754	99,305
		4,942,299	3,785,138	1,692,469	1,248,822
NET INTEREST INCOME		14,262,095	12,256,390	5,032,342	4,309,361
Trading and securities gain/(loss)		578,830	1,190,263	280,105	196,745
Service charges, fees and commissions		1,804,879	1,552,901	569,359	545,536
Foreign exchange gain- net		407,404	102,818	239,465	34,996
Income from asset acquired		541,621	484,583	170,800	200,926
Miscellaneous		1,568,727	875,272	574,378	325,556
TOTAL OPERATING INCOME		19,163,556	16,462,225	6,866,449	5,613,119
Compensation and fringe benefits		4,197,187	3,742,231	1,644,676	1,452,105
Taxes and licenses		1,877,428	1,438,621	686,569	438,098
Occupancy costs		1,512,231	1,353,460	575,554	459,615
Depreciation and amortization		903,529	823,555	304,034	263,061
Provision for impairment and credit losses		579,728	599,733	255,324	340,661
Insurance		1,014,690	825,388	332,002	285,949
Repairs and maintenance		81,812	88,391	32,052	30,025
Entertainment, amusement and recreation		186,106	170,451	76,686	59,355
Miscellaneous		1,960,381	1,640,379	591,621	436,214
TOTAL OPERATING EXPENSES		12,313,091	10,682,209	4,498,517	3,765,083
INCOME BEFORE INCOME TAX		6,850,465	5,780,016	2,367,931	1,848,036
PROVISION FOR INCOME TAX		1,166,344	937,016	283,146	273,588
NET INCOME	P	5,684,121	4,843,000	2,084,785	1,574,448
Attributable to:					
Equity holders of the parent		5,677,014	4,854,318	2,081,379	1,579,944
Minority interest		7,107	(11,317)	3,407	(5,496)
	P	5,684,121	4,843,000	2,084,785	1,574,448
Earnings Per Share					
a. Basic		2.48	2.34	0.91	0.76
b. Diluted *		2.48	2.34	0.91	0.76
Net Income		5,677,014	4,854,318	2,081,379	1,579,944
Weighted Ave. Number of Common Shares Outstanding		2,292,651	2,076,932	2,292,651	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 September 2017 & 2016

(Amounts in thousands)

	<u>SEPT 2017</u>	<u>SEPT 2016</u>	<u>JULY-SEPT 2017</u>	<u>JULY-SEPT 2016</u>
Net Income	5,684,121	4,843,000	2,084,785	1,574,448
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	761,431	2,402,509	251,769	332,244
Gains taken to profit or loss	(376,925)	(866,421)	(294,600)	(574,879)
Share in Net Unrealized Loss on Available-for-sale financial Assets of an associate	6,568	-	126,504	-
Cumulative translation adjustment	(10,973)	67,897	(10,630)	48,995
<i>Items that do not recycle to profit or loss in subsequent periods:</i>				
Remeasurement gain on defined benefit asset or liability	(12,882)	88,982	138,307	120
Other Comprehensive Income for the year	367,219	1,692,967	211,351	(193,520)
Total Comprehensive Income for the year	6,051,340	6,535,967	2,296,138	1,380,928
Total comprehensive income attributable to:				
Equity holders of the Parent Company	6,043,206	6,544,466	2,292,407	1,385,041
Minority Interest	8,134	(8,499)	3,729	(4,113)
	6,051,340	6,535,967	2,296,138	1,380,928

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
Balance at December 31, 2016	20,020,278	6,987,564	-	861,631	36,889,100	(1,598,600)	253,945	(22,500)	63,391,418	(5,214)	63,386,204
Total comprehensive income for the year	-	-	-	-	5,677,014	390,104	(12,761)	(11,151)	6,043,206	8,134	6,051,342
Adjustment on Remeasurement on Life Insurance	-	-	-	(13,809)	-	-	-	-	(13,809)	-	(13,809)
Transfer from Surplus to Surplus Reserves	-	-	-	22,959	(22,959)	-	-	-	-	-	-
Expenses related to Stock Rights Offering	-	(52,089)	-	-	-	-	-	-	(52,089)	-	(52,089)
Stock Rights Offering	4,838,710	10,161,290	-	-	-	-	-	-	15,000,000	-	15,000,000
Stock dividends - 8%	-	-	1,988,719	-	(1,988,719)	-	-	-	-	-	-
Cash Dividends - P0.80 per share	-	-	-	-	(1,988,719)	-	-	-	(1,988,719)	-	(1,988,719)
Balance at September 30, 2017	24,858,988	17,096,765	1,988,719	870,781	38,565,716	(1,208,496)	241,184	(33,651)	82,380,007	2,920	82,382,927
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	-	-	-	-	4,854,318	1,534,935	87,327	67,886	6,544,466	(8,499)	6,535,967
Additional acquisition of non-controlling interest	-	-	-	-	-	-	-	-	-	(739)	(739)
Changes in surplus of subsidiaries	-	-	-	583	(583)	-	-	-	-	-	-
Others	-	-	-	-	547	-	-	-	547	-	547
Stock Dividend 8%	1,482,993	-	-	-	(1,482,993)	-	-	-	-	-	-
Cash Dividend P1.00 per share	-	-	-	-	(1,853,728)	-	-	-	(1,853,728)	-	(1,853,728)
Balance at September 30, 2016	20,020,278	6,987,564	-	828,990	35,318,308	408,855	270,482	33,252	63,867,730	(14,778)	63,852,952

CHINA BANKING CORPORATION
STATEMENTS OF CASH FLOWS
For the periods ended

ANNEX V

	SEPTEMBER		SEPTEMBER	
	2017		2016	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	6,850,465	P	5,780,016
Adjustment to reconcile income before income tax to net cash provided by operations:				
Provision for probable losses		579,728		613,852
Depreciation and amortization		903,529		823,555
Unrealized gain/loss on AFS		390,104		1,534,935
Gain on sale of investment properties		(138,937)		(364,996)
Cumulative translation adjustment		(11,151)		67,886
Operating income before changes in operating assets and liabilities		8,573,738		8,455,248
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL		(6,661,366)		(1,697,484)
Loans and receivables		(43,316,217)		(33,948,228)
Other assets		158,550		(331,505)
Increase (decrease) in the amounts of:				
Deposit liabilities		36,455,182		33,508,100
Manager's checks		746,594		1,168,406
Accrued interest and other expenses		420,116		207,225
Other liabilities		(1,045,125)		(810,940)
Net cash provided by operations		(4,668,528)		6,550,822
Income taxes paid		(1,250,885)		(978,485)
Net cash provided by operating activities		(5,919,413)		5,572,336
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to bank premises, furniture, fixtures and equipment		(1,179,851)		(944,103)
Proceeds from sale of investment properties		502,574		509,539
Adjustment of minority interest		1,027		2,819
Decrease (increase) in equity investments		(48,616)		15,809
Decrease (increase) in the amounts of:				
AFS financial assets		(2,175,648)		7,608,701
HTM financial assets		(5,673,256)		(26,067,032)
Acquisition of minority interest		-		(739)
Net cash provided by (used in) investing activities		(8,573,770)		(18,875,007)
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in bills payable		3,923,226		(968,233)
Payments of cash dividend		(1,988,719)		(1,853,728)
Issuance of Stock Rights		14,947,911		-
Net cash provided by financing activities		16,882,418		(2,821,962)
NET INCREASE IN CASH AND CASH EQUIVALENTS		2,389,235		(16,124,632)
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		-
		118,758,817		118,939,094
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		8,941,075		7,898,447
Due from Bangko Sentral ng Pilipinas		98,520,187		74,499,280
Due from other banks		12,186,790		14,007,853
Interbank loans receivable and securities purchased under resale agreements		1,500,000		6,408,882
	P	121,148,052	P	102,814,462
RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES				
<u>Bills payable</u>				
December 31, 2016				16,954,998
<u>Cash Flows</u>				
Proceeds		191,141,907		
Settlement		(195,071,548)		(3,929,641)
<u>Non-cash changes</u>				
Foreign exchange movement		7,809,422		
Amortization of transaction cost		43,446		7,852,868
September 30, 2017				20,878,225

China Banking Corporation
Aging of Loans and Receivables
September 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	436,846,111	427,900,700	2,754,825	1,150,459	645,340	3,159,751	7,710,375	1,235,036
Less: Allow for Probable Losses & Unamortized Discount	7,282,321							
Net Loans and Receivables	429,563,790							
Accounts Receivables	2,750,786	1,815,146	85,334	21,247	176,529	652,530	935,640	-
Less: Allowance for Probable Losses	301,107							
Net Accounts Receivables	2,449,679							
Accrued Interest Receivables	3,312,163	3,312,163						
Less: Allowance for Probable Losses	167,090							
Net Accrued Interest Receivables	3,145,072							

CHINA BANKING CORPORATION

PROFITABILITY REPORT BY BUSINESS SEGMENT

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 and auto loans 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 September 30, 2017:



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

	LENDING BUSINESS	RETAIL BANKING BUSINESS	FINANCIAL MARKETS	OTHER BUSINESS & SUPPORT UNITS	BANKWIDE
Net interest income	10,021,064	685,187	1,191,963	2,363,881	14,262,095
Third Party Intersegment	(6,009,596)	5,705,192	732,715	(428,311)	-
Net Interest Income after Intersegment Transactions	4,011,468	6,390,379	1,924,678	1,935,570	14,262,095
Other Operating Income	1,028,413	1,075,540	986,977	1,810,531	4,901,461
Total Revenue	5,039,881	7,465,919	2,911,655	3,746,101	19,163,556
Other Operating expense	(1,671,099)	(4,714,081)	(966,253)	(4,961,658)	(12,313,091)
Income before income tax	3,368,782	2,751,838	1,945,402	(1,215,557)	6,850,465
Income tax provision	169,374	-	(401,901)	(933,817)	(1,166,344)
Net Income	3,538,156	2,751,838	1,543,501	(2,149,374)	5,684,121
Total Assets	282,134,200	397,040,572	127,921,908	(114,353,059)	692,743,621
Total Liabilities	5,970,616	395,704,533	126,927,515	81,758,030	610,360,694
Depreciation & Amortization	45,342	275,505	30,488	552,194	903,529
Provision for impairment and credit losses	493,154	169,059	-	(82,485)	579,728
Capital Expenditures	54,518	196,946	37,230	244,477	533,171

Financial Soundness Indicators

<i>PROFITABILITY (%)</i>	<u>Jan – Sept 2017</u>	<u>Jan – Sept 2016</u>
Return on Average Equity	10.41	10.47
Return on Average Assets	1.16	1.19
Cost-to-income ratio	61.23	61.25
Net Interest Margin	3.09	3.22
<i>LIQUIDITY (%)</i>	<u>Sept 2017</u>	<u>Dec 2016</u>
Liquid Assets to Total Assets	33.87	34.39
Loans to Deposit Ratio	74.31	71.43
<i>ASSET QUALITY (%)</i>	<u>Sept 2017</u>	<u>Dec 2016</u>
Gross NPL Ratio	1.76	1.86
Non-performing Loan (NPL) Cover	91.29	91.00
<i>SOLVENCY</i>	<u>Sept 2017</u>	<u>Dec 2016</u>
Debt to Equity Ratio	7.41	8.99
Asset to Equity Ratio	8.41	9.99
Interest Coverage Ratio	2.39	2.53*
<i>CAPITAL ADEQUACY (%)</i>	<u>Sept 2017</u>	<u>Dec 2016</u>
CET 1 Capital Ratio	13.85	11.30
Tier 1 Capital Ratio	13.85	11.30
Total Capital Adequacy Ratio	14.65	12.21

*for Jan-Sept 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 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	-	$\frac{\text{Total Qualifying Capital}}{\text{Total Risk Weighted Assets}}$

ANNEX IX

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 – Sept 2017</i></u>	<u><i>Jan – Sept 2016</i></u>
Gross Revenues	24,106	20,247
Gross Expenses	18,422	15,404
Net Income	5,684	4,843

<i>In Million Pesos</i>	<u><i>Sept 2017</i></u>	<u><i>Dec 2016</i></u>
Total Resources	692,744	633,198
Loan Portfolio (Net)	429,564	386,827
Total Deposits	578,038	541,583
Equity	82,383	63,386

Key Performance Indicators

<i>PROFITABILITY (%)</i>	<u><i>Jan – Sept 2017</i></u>	<u><i>Jan – Sept 2016</i></u>
Return on Average Equity	10.41	10.47
Return on Average Assets	1.16	1.19
Cost-to-income ratio	61.23	61.25
Net Interest Margin	3.09	3.22
<i>LIQUIDITY (%)</i>	<u><i>Sept 2017</i></u>	<u><i>Dec 2016</i></u>
Liquid Assets to Total Assets	33.87	34.39
Loans to Deposit Ratio	74.31	71.43
<i>ASSET QUALITY (%)</i>	<u><i>Sept 2017</i></u>	<u><i>Dec 2016</i></u>
Gross NPL Ratio	1.76	1.86
Non-performing Loan (NPL) Cover	91.29	91.00
<i>SOLVENCY</i>	<u><i>Sept 2017</i></u>	<u><i>Dec 2016</i></u>
Debt to Equity Ratio	7.41	8.99
Asset to Equity Ratio	8.41	9.99
Interest Coverage Ratio	2.39	2.53*
<i>CAPITAL ADEQUACY (%)</i>	<u><i>Sept 2017</i></u>	<u><i>Dec 2016</i></u>
CET 1 Capital Ratio	13.85	11.30
Tier 1 Capital Ratio	13.85	11.30
Total Capital Adequacy Ratio	14.65	12.21

*for Jan-Sept 2016

Economic Environment

The US economy expanded by 3.0% in the third quarter on the back of solid growth in personal consumption and non-residential fixed investments. September inflation of 1.6% remained below the 2.0% target. The US Federal Reserve kept its policy rate target unchanged at 1.0%-1.25% in November, with a hike expected by year-end given the strength of the US economy. Trump's nomination of Jerome Powell as the next US Fed Chairman could indicate policy continuity. Meanwhile, China logged slower economic growth at 6.8%. The BOC cut reserve requirements for banks that were compliant with the SME & agriculture sector lending standards in order to sustain economic momentum and curb bad debts. On the other hand, Japan continued to experience muted growth and low inflation. With Abe's re-election, the BOJ is expected to maintain its accommodative stance on monetary policy.

Philippine GDP growth of 6.5% in 2Q was at the lower end of the government's 2017 target, owing to stronger household spending and the recovery in trade. Inflation was on the uptrend, averaging 3.2% in the first ten months of the year. Investment's share to national growth declined to 34% from last year's 89% from delays in the roll-out of big-ticket infrastructure projects. Public construction decelerated to 12.0% from 33.5% in the previous year. Unemployment rate was slightly higher at 5.6% in July due to job losses from weather-related disruptions in the agriculture sector and tighter labor standards in the services sector. Volume of cash remittances steadily grew by 5.4% to \$18.6 billion.

The country's foreign reserves contracted by 5.3% year-on-year to USD 80.6 billion (8.4 months import cover) by October as the government settled its debt obligations. The local currency weakened against the greenback in September (down 6.3%) from expectations of another US Fed rate hike. Market liquidity remained ample at P10.1 trillion (up 14% year-on-year) despite the shift of funds from the BSP's TDF to loans and investments.

The combined asset base of the UKB and TB industry grew 15% to P14.2 trillion. Loans-to-deposit ratio improved to 68% as loan portfolio grew faster (20%) than deposits (16%). Gross NPL ratio decreased to 1.91% while loan loss coverage ratio stood at 119.21%. During the first nine months, the bigger banks raised about P167 billion in fresh funds— half of which was raised in the third quarter. CAR ratios for the UKB industry remained well-above regulatory standards at 15.31% (solo) and 15.98% (consolidated) as of June 2017.

Results of Operation

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

For the nine months of the year, the Bank recorded a **net income** of P5.68 billion, 17.37% higher than the P4.84 billion recorded in the same period last year mainly from higher core operating income that resulted in a return on equity of 10.41% and return on assets of 1.16%.

Total interest income increased 19.72% to P19.20 billion from P16.04 billion in the same period last year. **Interest income from loans and receivables** was up 20.75% to P15.75 billion from P13.05 billion on the back of robust year-on-year expansion in loan portfolio. **Interest income from trading and investments** was 16.50% higher at P2.89 billion from the year-on-year growth in securities holdings, while **interest income from due from BSP and other banks** improved 8.99% to P559.09 million with higher placements with the BSP and other banks.

Total interest expense amounted to P4.94 billion, P1.16 billion or 30.57% larger than last year due to the buildup in funds which include the P15.94 billion worth of LTNCDs issued in November 2016 and June 2017 as part of the Bank's P20-billion shelf offering. **Interest expense on deposit liabilities** increased 32.66% to P4.64 billion arising from the deposit expansion.

Despite the 16.36% improvement in **net interest income** to P14.26 billion, consolidated **net interest margin** slid 13 bps to 3.09% from 3.22% last year from the larger volume of high-cost funds.

Total **non-interest income** increased by P695.63 million or 16.54% with the sustained growth momentum in fee-based business lines. Excluding volatile earnings from trading and one-off gains, core fees went up 29.36%. **Service charges, fees, and commissions** grew 16.23% to P1.80 billion from the upswing in investment banking fees, credit card commissions, and transaction charges. **Foreign exchange gain** quadrupled to P407.40 million because of higher deal volume coupled with the month-to-month movement in the Peso-Dollar exchange rate. **Income from assets acquired** improved 11.77% to P541.62 million from P484.58 million from higher sales of foreclosed properties. **Miscellaneous income** increased by 79.23% to P1.57 billion from higher trust revenues, contribution from bancassurance business, and one-off gains. Meanwhile, **trading and securities gain** declined P611.43 million or 51.37% to P578.83 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 16.37% to P11.73 billion as a result of the ongoing business expansion. Cost-to-income ratio marginally improved to 61.23% because of robust core earnings. **Compensation and fringe benefits** increased 12.16% to P4.20 billion from the increase in human resource complement. **Taxes and licenses** were up 30.50% to P1.88 billion from higher documentary stamp tax, gross receipts tax, and other business taxes. The ongoing branch expansion and technology upgrade resulted in the 11.73% growth in **occupancy costs** to P1.51 billion, as well as the 9.71% increase in **depreciation and amortization** to P903.53 million. **Insurance**, which includes PDIC premium payments, grew 22.94% to P1.01 billion with the expansion in deposits. **Entertainment, amusement and recreation** grew by 9.18% to P186.11 million because of higher marketing-related expenses recorded for the period. **Miscellaneous expenses** went up by 19.51% or P320.00 million primarily from increases in stationery, supplies & postage, transportation & traveling, information technology-related expenses, and provision for year-end expenses. Meanwhile, **repairs and maintenance** were down 7.44% to P81.81 million from lower repairs and renovations conducted within the period.

Financial Condition

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

Assets expanded by 9.40% to P692.74 billion with the buildup in loans and liquid assets.

Cash and other cash items fell 25.56% to P8.94 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from Bangko Sentral ng Pilipinas** recorded a 7.13% increment to P98.52 billion from higher reserves to cover for the deposit expansion. **Due from other banks** expanded 7.54% to P12.19 billion from the uptick in deposits with correspondent banks. The Bank reduced its **interbank loans receivable and securities purchased under resale agreements** to P1.50 billion from P3.45 billion because of lower overnight placements with the BSP.

Total investment securities amounted to P113.49 billion, 14.66% higher year-to-date with **financial assets at fair value through profit & loss (FAVPL)** increasing P6.67 billion or 86.47% to P14.37 billion. **Available-for-sale (AFS) financial assets** expanded by P2.18 billion or 6.42%, while **held-to-maturity (HTM) financial assets** grew P5.67 billion or 9.88% to P63.08 billion from the buildup of accrual assets while managing rate volatility. The Bank's securities portfolio accounted for 16.38% of total resources, higher than the 15.63% at year-end.

Gross loan portfolio (inclusive of UDSCL) was at P436.85 billion, 10.95% larger year-to-date with the growth across all market segments, while **loans (net, inclusive of UDSCL)** stood at P429.56 billion, up P42.74 billion or 11.05%. Year-on-year, gross loans expanded P87.75 billion or 25.26%, with corporate and consumer loans growing by 32% and 28%, respectively.

Investment in associates saw a P48.62 million uptick to P325.18 million with the recognition of an associate's net income for the period. On the other hand, the additional loan loss provisions booked for the period resulted in an 8.01% growth in **deferred tax assets** to P1.80 billion. **Other assets** also dropped 7.25% to P6.40 billion, mainly from the decline in accounts receivables.

Total deposits ended at P578.04 billion, of which CASA (demand and savings deposits) totaled P306.04 billion. Low-cost funding mix of 52.94% exceeded the 2016-end ratio of 51.04%. **Time deposits** amounting to P272.00 billion include the second tranche of LTNCDs worth P6.35 billion.

Bills payable grew P3.92 billion or 23.14% to P20.88 billion from increased borrowings, following the prepayment of the Bank's US\$ 158 million syndicated loan.

Manager's checks rose 36.78% to P2.78 billion because of higher demand from branch customers. **Income tax payable** amounting to P486.20 million was 11.18% larger year-to-date from the income tax accruals for the year. **Accrued interest and other expenses** were up P420.12 million or 22.49% due to the setup of accruals and payroll expenses. **Derivative liabilities** significantly dropped to P97.62 million from P243.20 million from lower volume of currency swaps during the period. **Other liabilities** decreased by P897.77 million to P4.64 billion mainly from lower bank acceptances.

Total equity (including minority interest) expanded to P82.38 billion, 29.97% higher than 2016-end'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 P10.11 billion to P17.10 billion. **Net unrealized loss on available-for-sale financial assets** improved 24.40% to (P1.21) 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 P12.76 million decline to P241.18 million because of actuarial adjustments to the retirement plan valuation. **Cumulative translation adjustment** fell to (P33.65) million from (P22.50) million due to 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 13.85% and 14.65%, 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 September 30, 2017 and September 30, 2016

The Bank recorded **total comprehensive income** of P6.05 billion for January to September, a P484.63 million drop from the P6.54 billion recorded last year largely from the P1.15 billion year-on-year drag in net unrealized loss on AFS investments

Key Performance Indicators

Profitability

CHIB's net income of P5.68 billion resulted in a 10.41% ROE and 1.16% ROA given significant improvement in core operating income. This also resulted in a slight improvement in cost-to-income ratio to 61.23% from 61.25%. Net interest margin narrowed to 3.09% from 3.22% from higher cost of funds.

Liquidity

The Bank's liquidity ratio (the ratio of liquid assets to total assets) was lower at 33.87% from 34.39% in December 2016 because of the year-to-date loan expansion.

Asset Quality

Non-performing loans ratio dropped 10 bps to 1.76% from the growth in the lending books, with NPL volume declining by P700 million year-on-year. Meanwhile, consolidated loan loss coverage ratio improved to 91.29% from 91.00%, with the Parent Bank recording a 141.62% coverage.

Solvency Ratios

Debt-to-equity ratio was at 7.41 in September 2017 versus 8.99 in December 2016 with the additional capital raised from the SRO, while asset-to-equity ratio was at 8.41 versus 9.99 at year-end. Interest coverage ratio for the period stood at 2.39 as against 2.53 for the same period last year.

Capitalization

China Bank's CET 1 / Tier 1 CAR and Total CAR ratios were registered at 13.85% and 14.65%, respectively. The Bank's capital is largely comprised of CET 1 / Tier 1 (core) capital.

Corporate Developments

On November 1, 2017, Mr. William C. Whang, former Executive Vice President (EVP) & Chief Operating Officer, assumed the presidency of China Bank. He succeeded Mr. Ricardo R. Chua who will become an advisor to the Bank's Board of Directors. Aside from the transition in top management, the Bank also initiated several key management designations in the third quarter: a) Mr. Romeo D. Uyan as EVP & COO, effective November 1; b) Mr. Patrick D. Cheng as Senior Vice President & Chief Finance Officer, effective December 1; c) Ms. Lilian Yu as FVP II & Head of Institutional Banking Group, effective November 1; d) Ms. Delia Marquez as First Vice President II and Head of Centralized Operations Group, effective December 1; and e) Ms. Marisol M. Teodoro as President & CEO of China Bank Securities, effective September 1.

The Bank secured regulatory approval for the increase in its authorized capital stock from P25 billion to P33 billion. Likewise, the thrift bank subsidiary, China Bank Savings also received BSP and SEC approval for the P2.5 billion capital infusion from the Parent Bank at the end of 2016.

China Bank Capital continued to be the country's top investment house in terms of market share for retail bond issuances for the third quarter 2017. Among its major deals over the last three months include the P5 billion Fixed Retail Bonds of Vista Land, Inc. (Sole Issue Manager, Underwriter & Bookrunner) and the P4.3 billion Short-dated Notes of Ayala Land (Lead Underwriter & Sole Bookrunner).

On November 3, the Bank issued to shareholders the 8% stock dividends which were declared in the second quarter.

On September 14, 2017, Capital Intelligence Ratings (CI Ratings or CI), a Cyprus-based credit rating agency, upgraded China Bank's Financial Strength Rating (FSR) to 'BBB' from 'BBB-' with a 'Stable' outlook. This follows the investment grade rating given by Moody's in May. The rating is supported mainly by the Bank's good liquidity position, asset quality, and sound profitability.

During the quarter, the Bank also marked the 90th anniversary of its listing with the Manila Stock Exchange (forerunner of PSE) which was established in 1927.

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 13% of the total consolidated resources.

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

(In Mn Pesos)	Jan-Sept '17	<i>Jan-Dec '16</i>	<i>Jan-Sept '16</i>
Net Income	38	71	54
Total Assets	764	685	664

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

(In Mn Pesos)	Jan-Sept '17	<i>Jan-Dec '16</i>	<i>Jan-Sept '16</i>
Net Income	36	9	19
Total Assets	55	40	40

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

(In Mn Pesos)	Jan-Sept '17	<i>Jan-Dec '16</i>	<i>Jan-Sept '16</i>
Net Income	403	234	95
Total Assets	86,669	81,250	78,996

- **China Bank Capital Corporation**

(In Mn Pesos)	Jan-Sept '17	<i>Jan-Dec '16</i>	<i>Jan-Sept '16</i>
Net Income	195	230	95
Total Assets	1,501	808	620