May 15, 2018

PHILIPPINE STOCK EXCHANGE, INC.
PSE Tower, One Bonifacio High Street
28th Street corner 5th Avenue
Bonifacio Global City, Taguig

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. KATHLEEN ANNE F. FAMADICO**
OIC - Issuer Compliance and Disclosure Department

Gentlemen:

We are pleased to furnish your good office with a copy of our SEC Form 17-Q as of March 31, 2018 filed with the Securities and Exchange Commission (SEC). For your information and guidance.

Thank you.

Very truly yours,

AEscucha

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

COVER SHEET

4	4	3							

SEC Registration Number

CHINA BANKING CORPORATION AND SUBSIDIARIES

(Company's Full Name)

8745 Paseo de Roxas corner Villar Streets, Makati City

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

Patrick D. Cheng
(Contact Person)

885-5555
(Company Telephone Number)

03 **31**
Month *Day*
(Fiscal Year)

17-Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

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

(Amended Articles Number/Section)

1,932
Total No. of Stockholders

Total Amount of Borrowings

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC FORM 17-Q

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

1. For the quarter period ended **March 31, 2018**

2. Commission identification number **443**

3. BIR Tax Identification No. **000-444-210-000**

4. **CHINA BANKING CORPORATION**
   Exact name of issuer as specified in its charter

5. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

7. **CHINA BANK BUILDING 8745 PASEO DE ROXAS COR. VILLAR STS., MAKATI CITY** **1226**
   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
COMMON	**2,685,899,812**	

11. Are any or all of the securities listed on the Stock Exchange?

    Yes [**X**] 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 [**X**] No [ ]

(b) has been subject to such filing requirements for the past 90 days

Yes [**X**] 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

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 ……………………………………………….............. **CHINA BANKING CORPORATION**

Principal Financial/Accounting Officer/Controller …………….. **PATRICK D. CHENG**

Signature and Title ………………………………………………. Chief Finance Officer

Date……………………………………………………………….. May 15, 2018

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, 2017.

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, 2018.

Relevant Provisions from PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*

PAS 8 contains these following relevant paragraphs:

30. When an entity has not applied a new IFRS that has been issued but is not yet effective, the entity shall disclose:

    a) this fact; and
    b) known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the entity's financial statements in the period of initial application.

31. In complying with paragraph 30, an entity considers disclosing:

    a) the title of the new Standard or Interpretation;
    b) the nature of the impending change or changes in accounting policy;
    c) the date by which application of the IFRS is required;
    d) the date as at which it plans to apply the IFRS initially; and
    e) either:
        i. a discussion of the impact that initial application of the IFRS is expected to have on the entity's financial statements; or
        ii. if that impact is not known or reasonably estimable, a statement to that effect.

PFRS 9, *Financial Instruments*
PFRS 9 replaces PAS 39, Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 1, 2018.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate the prior period comparative consolidated financial statements when it adopted the requirements of the new standard on January 1, 2018. Differences in the carrying amounts of financial instruments resulting from the adoption of PFRS 9 will be recognized in the opening January 1, 2018 surplus and OCI as if the Group had always followed the new requirements.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets and on the recognition of expected credit losses would have an impact on the Group's and Parent Company's financial statements. The opening

January 1, 2018 equity in the Group's and Parent Company's statement of financial position increased by P1.79 billion and P1.72 billion, respectively, before deferred tax effects, as a result of applying PFRS 9's requirements on classification and measurement of financial assets. This change resulted from reclassifications of financial assets depending on the Group's and the Parent Company's application of its business models and its assessment of the financial assets' cash flow characteristics. The opening January 1, 2018 equity in the Group's and Parent Company's statement of financial position decreased by P4.63 billion and P4.13 billion, respectively, before deferred tax effects, as a result of applying PFRS 9's requirements on the recognition of expected credit losses. This change was dependent upon whether there have been significant increases in the credit risk of the Group's and Parent Company's financial assets since initial recognition and on the Group's and Parent Company's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. During 2018, PFRS 9's requirements will have an impact on the Group's and Parent Company's financial statements depending on certain factors such as the financial assets' corresponding business models, cash flow characteristics, and changes in credit risks.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial liabilities and on the application of hedge accounting are not expected to have an impact on the Group's and Parent Company's financial statements.

The key changes to the Group's accounting policies resulting from the adoption of PFRS 9 are described below.

Classification and measurement

The PFRS 9 classification and measurement model requires that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as at fair value through profit or loss (FVPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVPL. Subsequent measurement of instruments classified as FVPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as at FVPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as at fair value through OCI (FVOCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as at amortized cost. Subsequent measurement of instruments classified as at FVOCI and amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as at FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVPL unless an irrevocable designation is made to classify the instrument as at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss.

Derivatives will continue to be measured at FVPL under PFRS 9.

Impairment
The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost or FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVPL.

Expected Credit Loss Methodology
The application of ECL will significantly change the Group credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Stage Migration and Significant Increase in Credit Risk
Financial instruments subject to the ECL methodology are categorized into three stages.

For non-impaired financial instruments:
Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL. In contrast to stage 1 and stage 2, inherent within the incurred loss methodology under PAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.

For impaired financial instruments:
Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under PAS 39 for impaired financial instruments.

b. **Seasonality or Cyclicality of Interim Operations.** Changes in the Group's financial condition or operation were due more to external factors such as interest movements and cost of borrowings rather than seasonality or cyclical aspects.

c. **Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.** Changes in nature and amounts in the financial statements were due more to market-related factors inherent in the nature of the issuer's business operations and are not considered unusual. Below are some significant changes as explained in the Management's Discussions of Financial Condition and Results of Operation:

	March 31, 2018	**December 31, 2017**	**Increase (Decrease)**
Assets			
Cash and Other Cash Items	9,147,367	12,685,984	(3,538,617)
Due from Other Banks	8,516,439	15,641,476	(7,125,037)
Interbank Loans Receivable and Securities Purchased Under Resale Agreement	7,823,525	18,751,845	(10,928,320)
Financial Assets at Fair Value through Profit or Loss	13,474,821	16,238,888	(2,764,067)
Financial Assets at Fair Value through Other Comprehensive Income/AFS	8,476,843	46,445,391	(37,968,548)
Financial Assets at Amortized Cost/HTM	107,211,284	65,286,267	41,925,017
Deferred Tax Assets	2,825,845	1,778,081	1,047,764
Liabilities			
Bills Payable	12,433,773	20,118,031	(7,684,258)
Manager's Checks	1,821,584	2,441,042	(619,458)
Income Tax Payable	662,408	362,041	300,367
Accrued Interest and Other Expenses	3,037,433	2,627,619	409,814
Derivative Liabilities	143,043	267,533	(124,490)
Other Liabilities	7,498,243	5,720,701	1,777,542

	March 31, 2018	**March 31, 2017**	**Increase (Decrease)**
Income			
Interest on Loans and Receivable	6,158,088	5,027,275	1,130,813
Interest on Trading and investments	1,182,092	905,201	276,891
Trading and Securities Gain (Loss)	(292,934)	113,999	(406,933)
Foreign Exchange Gain (Loss) - net	140,201	92,645	47,556
Income from Asset Acquired	38,537	183,711	(145,174)
Miscellaneous	390,307	265,605	124,702
Expense			
Interest on Deposit Liabilities	2,153,882	1,536,600	617,281
Interest on Bills Payable and other borrowings	84,992	101,421	(16,429)
Compensation and Fringe Benefits	1,450,989	1,227,579	223,410
Taxes and Licenses	701,407	614,185	87,222
Depreciation and amortization	363,815	288,716	75,099
Provision for impairment and credit losses	171,494	124,277	47,217
Insurance	400,225	343,354	56,872
Transportation and traveling	50,497	41,712	8,785
Professional fees, marketing and other related services	88,814	76,860	11,954
Repairs and Maintenance	33,898	27,459	6,438
Provision for Income Tax	231,370	307,863	(76,493)

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.** On March 7, 2018, the Board of Directors approved the Bank's Peso funding program of up to Php50 billion via a combination of Long-Term Negotiable Certificate of Time Deposit and/or Retail Bonds and/or Commercial Papers.

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 3, 2018, the stockholders approved the declaration of ₱0.83 per share cash dividends. Payment will be on June 1, 2018 for China Bank stockholders.

h. **Effect of Changes in the Composition of the Enterprise during the Interim Period.** There were no changes in the composition of the issuer including business combinations, acquisitions, or disposal of subsidiaries and long term investments, restructuring, and discontinuing operations during the period.

i. **Changes in Contingent Liabilities or Contingent Assets.** There are various outstanding commitments and contingent liabilities but management does not anticipate any material losses as a result of these transactions.

k. **Material Contingencies and Any Other Events.** *Issuance of Additional Shares.* On January 24, 2018, the Parent Company issued additional 1,128,096 common shares to CBC Employees Retirement Plan at a price of 33.40 per share (closing price of the Group's shares at the Philippine Stock Exchange on October 20, 2017 which is the record date of the Parent Company's stock dividend).

l. **Financial Risk Disclosure**. On April 4, 2018, the BOD affirmed the priority risk areas of the Bank considered in the 2018 ICAAP submission.

The Bank submitted its annually updated ICAAP document, in compliance with BSP requirements, on March 27, 2018. In the said document, the Bank 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 Bank 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.

m. **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 that have been reflected in the financial statements for the period other than disclosed in Item g.

n. **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 internally.

o. **Fair Value Measurement.** As of March 31, 2018 and December 31, 2017, except for the following financial instruments, the carrying values of the Group's financial assets and liabilities as reflected in the balance sheets and related notes approximate their respective fair values:

	March 31, 2018		**December 31, 2017 (Audited)**	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial Assets at Amortized Cost/HTM				
Government bonds	**₱86,157,675**	**₱80,074,953**	₱52,998,477	₱51,488,294
Private bonds	**21,053,609**	**20,659,394**	12,287,790	12,110,870
Loans and receivables				
Corporate and commercial loans	**360,552,611**	**338,946,704**	365,117,654	349,880,762
Consumer loans	**71,596,586**	**75,067,150**	71,577,984	74,207,566
Trade-related loans	**13,104,749**	**13,405,598**	12,062,711	12,041,107
Others	**671,643**	**703,202**	212,593	196,307
Sales contracts receivable	**981,673**	**1,089,291**	918,147	1,060,191

	March 31, 2018		December 31, 2017 (Audited)	
Financial Liabilities				
Deposit liabilities	**613,638,716**	**604,704,789**	292,083,031	282,586,204
Bills payable	**12,433,773**	**12,270,383**	–	–

As of March 31, 2018 and December 31, 2017, the fair value hierarchy of the Group's assets and liabilities are presented below:

	March 31, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	**1,332,486**	**979,814**	**-**	**2,312,300**
Treasury notes	**-**	**744,943**	**-**	**744,943**
Treasury bills		**2,156,314**	**-**	**2,156,314**
Private bonds	**4,605,746**		**-**	**4,605,746**
Quoted equity shares	**554,300**			**554,300**
Financial assets designated at FVPL	**2,776,246**	**-**	**-**	**2,776,246**
Derivative assets	**-**	**324,972**	**-**	**324,972**
Financial Assets at FVOCI	**-**			
Government bonds	**4,958,791**	**3,396,509**	**-**	**8,355,300**
Quoted private bonds	**1,091**		**-**	**1,091**
Quoted equity shares	**102,088**	**-**	**18,365**	**120,452**
	14,330,748	**7,602,552**	**18,365**	**21,951,665**
Financial liabilities at FVPL				
Derivative liabilities	**-**	**143,043**	**-**	**143,043**
	-	**143,043**	**-**	**143,043**
Fair values of assets carried at amortized cost/cost[(a)]				
Financial Assets at Amortized Cost				
Government bonds	**80,074,953**	**-**	**-**	**80,074,953**
Private bonds	**20,659,394**	**-**	**-**	**20,659,394**
Loans and receivables				
Corporate and commercial loans	**-**	**-**	**338,946,704**	**338,946,704**
Consumer loans	**-**	**-**	**75,067,150**	**75,067,150**
Trade-related loans	**-**	**-**	**13,405,598**	**13,405,598**
Others	**-**	**-**	**703,202**	**703,202**
Sales contracts receivable	**-**	**-**	**1,089,291**	**1,089,291**
Investment properties[(b)]				
Land	**-**	**-**	**7,252,530**	**7,252,530**
Buildings and improvements	**-**	**-**	**2,517,999**	**2,517,999**
	100,734,347	**-**	**438,982,474**	**539,716,821**
Fair values of liabilities carried at amortized cost[(a)]				
Deposit liabilities	**-**	**-**	**604,704,789**	**604,704,789**
Bills payable	**-**	**-**	**12,270,383**	**12,270,383**
	-	**-**	**616,975,171**	**616,975,171**

	December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	₱5,792,345	₱119,314	₱–	₱5,911,659
Treasury notes	1,413,940	479,252	–	1,893,192
Treasury bills	315,996	1,709,371	–	2,025,367
Private bonds	2,663,397	–	–	2,663,397
Financial assets designated at FVPL	3,411,686	–	–	3,411,686
Derivative assets	–	333,587	–	333,587
AFS financial assets				
Government bonds	25,761,577	9,467,927	–	35,229,504
Quoted private bonds	11,051,657	38,781	–	11,090,438
Quoted equity shares	67,903	–	–	67,903
	₱50,478,501	₱12,148,232	₱–	₱62,626,733
Financial liabilities at FVPL				
Derivative liabilities	₱–	₱267,533	₱–	₱267,533

	December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
	₱–	₱267,533	₱–	₱267,533
Fair values of assets carried at amortized cost				
HTM financial assets				
Government bonds	₱51,488,294	₱–	₱–	₱51,488,294
Private bonds	12,110,870	–	–	12,110,870
Loans and receivables				
Corporate and commercial loans	–	–	349,880,762	349,880,762
Consumer loans	–	–	74,207,566	74,207,566
Trade-related loans	–	–	12,041,107	12,041,107
Others	–	–	196,307	196,307
Sales contracts receivable	–	–	1,060,191	1,060,191
Investment properties				
Land	–	–	7,091,280	7,091,280
Buildings and improvements	–	–	2,406,887	2,406,887
	₱63,599,164	₱–	₱446,884,100	₱510,483,264
Fair values of liabilities carried at amortized cost				
Deposit liabilities	₱–	₱–	₱625,596,566	₱625,596,566
Bills payable	–	–	19,825,796	19,825,796
	₱–	₱–	₱645,422,362	₱645,422,362

p. **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 ₱12.32 million, and ₱11.06 million for the three-month periods ended March 31, 2018 and 2017. The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee (TIC) of the Parent Company. The members of the TIC are directors and key management personnel of the Parent Company.

Transactions with related party retirement plan follow:

	March 31, 2018	December 31, 2017 (Audited)
Balance Sheet		
Deposit in banks	**₱506,587**	₱486,822
Equity Investments	**1,881,480**	1,777,250
Total market value	**1,881,480**	1,777,250
Number of shares held	**51,571**	51,571

	Three Months Ended March 31	
	2018	2017
Income Statement		
Dividend income	**₱51,571**	₱47,751
Interest income	**3,622**	954

AFS financial assets represent shares of stock of the Parent Company. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

Other Related Party Transactions

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

	March 31, 2018		
Category	**Amount / Volume**	**Outstanding Balance**	**Terms and Conditions**
Significant Investor			
Loans and receivables		**6,755,200**	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	**72,475**		
Repayments	**–**		
Deposit liabilities		**160**	These are checking accounts with annual average rate of 0.13%.
Deposits	**426,812**		
Withdrawals	**(426,910)**		
Associates			
Deposit Liabilities		**54,085**	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposit	**324,234**		
Withdrawals	**(347,871)**		
Key Management Personnel			
Loans		**879**	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Issuance	**–**		
Repayments	**(38,433)**		
Deposit Liabilities		**12,086**	These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00%
Deposits	**102,490**		
Withdrawals	**(109,176)**		
Other Related Parties			
Deposit Liabilities		**84,186**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposit	**8,211,672**		
Withdrawals	**(8,179,050)**		

	December 31, 2017 (Audited)		
Category	Amount / Volume	Outstanding Balance	Terms and Conditions
Significant Investor			
Loans		₱6,682,725	Partially secured Loans with interest rate of 2 - 5.12% and maturity of two to seven years..
Issuances	₱5,624,213		
Repayments	(1,651,488)		
Deposit Liabilities		257	These are checking accounts with annual average rate of 0.13%.
Deposit	3,164,475		
Withdrawals	(3,164,441)		
Associates			
Deposit Liabilities		77,722	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposit	1,175,969		
Withdrawals	(1,386,319)		
Key Management Personnel			
Loans		39,312	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Issuances	417		
Repayments	2,238		
Deposit Liabilities		18,772	These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%.
Deposit	279,554		
Withdrawals	(276,612)		
Other Related Parties			
Deposit Liabilities		51,563	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposit	16,038,034		
Withdrawals	(16,008,489)		

Other related parties pertain to subsidiaries of the significant investor.

Interest income earned and interest expense incurred from the above loans and deposit liabilities, respectively, for the three-month periods ended March 31, 2018 and March 31, 2017 are presented below:

	Significant Investor		Associate	
	March 31			
	2018	2017	**2018**	2017
Interest income	**₱10,565**	₱34,736	**₱–**	₱–
Interest expense	**–**	–	**52**	799

	Key Management Personnel		Other Related Parties	
	March 31			
	2018	2017	**2018**	2017
Interest income	**₱7**	₱–	**₱–**	₱–
Interest expense	**6**	11	**33**	2

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

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

	Subsidiaries		
	March 31, 2018	December 31, 2017	**Nature, Terms and Conditions**
Balance Sheet			
Accounts receivable	**₱1,970**	₱2,741	This pertains to various expenses advanced by CBC in behalf of CBSI
Security deposits	**2,976**	2,736	This pertains to the rental deposits with CBSI and CBCC for office space leased out to the Parent Company
Accounts payable	**9,284**	10,607	This pertains to various unpaid rental to CBSI

	Subsidiaries		
	March 31, 2018	March 31, 2017	**Nature, Terms and Conditions**
Income Statement			
Miscellaneous income	**₱450**	₱450	Human resources functions provided by the Parent Company to its subsidiaries such as recruitment and placement, training and development, salary and benefits development, systems and research, and employee benefits. Under the agreement between the Parent Company and its subsidiaries, the subsidiaries shall pay the Parent Company an annual fee
Occupancy cost	**4,956**	6,184	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	**45,407**	43,040	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 **ANNEX I**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

		March 2018 Unaudited	December 2017 Audited
ASSETS			
Cash and Other Cash Items	P	9,147,367	12,685,984
Due from Bangko Sentral ng Pilipinas		92,494,241	98,490,014
Due from Other banks		8,516,439	15,641,476
Interbank Loans Receivable and Securities Purchased under Resale Agreements		7,823,525	18,751,845
Financial Assets at Fair Value through Profit or Loss		13,474,821	16,238,888
Financial Assets at Fair Value through Other Comprehensive Income/Available-for-Sale Financial Assets		8,476,843	46,445,391
Financial Assets at Amortized Cost/Held-to-Maturity Financial Assets		107,211,284	65,286,267
Loans and Receivables - net		445,925,589	448,970,942
Accrued Interest Receivable		3,669,748	3,718,505
Investments in Associates		329,422	329,422
Bank Premises, Furniture, Fixtures and Equipment - net		6,849,182	6,875,864
Investment Properties		5,075,249	5,072,156
Deferred Tax Assets		2,825,845	1,778,081
Intangible Assets		4,073,196	4,104,032
Goodwill		839,748	839,748
Other Assets		6,702,282	6,218,895
	P	723,434,782	751,447,510
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand		154,559,416	154,286,415
Savings		184,168,443	188,723,947
Time		274,910,857	292,083,031
		613,638,716	635,093,393
Bills Payable		12,433,773	20,118,031
Manager's Checks		1,821,584	2,441,042
Income Tax Payable		662,408	362,041
Accrued Interest and Other Expenses		3,037,433	2,627,619
Derivative Liabilities		143,043	267,533
Deferred Tax Liabilities		1,170,268	1,161,653
Other Liabilities		7,498,243	5,720,701
		640,405,468	667,792,013
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital Stock			
Common Stock - P10 par value			
Authorized - 3,300,000,000 shares			
Issued - 2,685,899,812 shares		26,858,998	26,847,717
Capital paid in excess of par value		17,122,626	17,096,228
Surplus Reserves		953,019	926,689
Surplus		38,030,233	40,360,563
Net Unrealized Gains (Losses) on Financial Assets at FVOCI/AFS		(181,866)	(1,813,280)
Remeasurement Gain on Defined Benefit Asset		283,429	283,763
Remeasurement on Life Insurance Reserve of Associate		(12,221)	(12,221)
Cumulative Translation Adjustment		(32,140)	(38,698)
		83,022,079	83,650,761
Non-controlling Interest		7,235	4,736
		83,029,314	83,655,497
	P	723,434,782	751,447,510

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Amounts in thousands)

	March 2018 Unaudited	December 2017 Audited
CONTINGENT ACCOUNTS		
Unused commercial letters of credit	**21,301,297**	**21,596,174**
Outstanding guarantees Issued	**343,264**	**3,079,993**
Inward bills for collection	**1,002,142**	**2,386,848**
Outward bills for collection	**74,576**	**93,772**
IRS receivable	**12,416,880**	**9,991,390**
Spot exchange bought	**2,717,071**	**996,333**
Spot exchange sold	**2,014,245**	**1,399,180**
Future exchange bought	**20,801,743**	**18,736,175**
Future exchange sold	**23,029,637**	**15,179,964**
Trust department accounts	**128,340,772**	**131,813,251**
Credit card Lines	**9,195,014**	**10,359,997**
Late deposits/payments received	**439,852**	**127,832**
Deficiency claims receivable	**291,355**	**291,831**
Standby credit commitment	**4,403,880**	**2,274,398**
Others	**821**	**1,614**
	226,372,550	**218,328,752**

CHINA BANKING CORPORATION AND SUBSIDIARIES **ANNEX II**

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands)

		MARCH 2018	**MARCH 2017**
INTEREST INCOME			
Loans and receivable	P	6,158,088	5,027,275
Trading and investments		1,182,092	905,201
Due from BSP and other banks		190,261	176,157
		7,530,441	6,108,633
INTEREST EXPENSES			
Deposit liabilities		2,153,882	1,536,600
Bills payable and other borrowings		84,992	101,421
		2,238,874	1,638,021
NET INTEREST INCOME		**5,291,567**	**4,470,611**
Trading and securities gain/(loss)		(292,934)	113,999
Service charges, fees and commissions		575,795	533,588
Foreign exchange gain- net		140,201	92,645
Income from asset acquired		38,537	183,711
Miscellaneous		390,307	265,605
TOTAL OPERATING INCOME		**6,143,474**	**5,660,159**
Compensation and fringe benefits		1,450,989	1,227,579
Taxes and licenses		701,407	614,185
Occupancy costs		477,523	440,215
Depreciation and amortization		363,815	288,716
Provision for impairment and credit losses		171,494	124,277
Insurance		400,225	343,354
Repairs and maintenance		33,898	27,459
Entertainment, amusement and recreation		57,656	52,908
Miscellaneous		755,510	762,083
TOTAL OPERATING EXPENSES		**4,412,517**	**3,880,775**
INCOME BEFORE INCOME TAX		**1,730,956**	**1,779,383**
PROVISION FOR INCOME TAX		231,370	307,863
NET INCOME	**P**	**1,499,586**	**1,471,520**
Attributable to:			
Equity holders of the parent		**1,497,939**	**1,469,801**
Minority interest		1,648	1,720
	P	**1,499,586**	**1,471,520**
Earnings Per Share			
a. Basic		0.57	0.68
b. Diluted *		0.57	0.68
Net Income		1,497,939	1,469,801
Weighted Ave. Number of Common Shares Outstanding		2,639,517	2,174,001

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

CHINA BANKING CORPORATION **ANNEX III**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Quarters Ended March 2018 and 2017

(Amounts in thousands)

	MARCH 2018	MARCH 2017
Net Income	**1,499,587**	**1,471,521**
Other Comprehensive Income:		
Items that recycle to profit or loss in subsequent periods:		
Net Unrealized Gains (Losses) on Financial Assets at FVOCI/AFS		
Fair value gain(loss) for the year, net of tax	**(110,797)**	**369,661**
Gains taken to profit or loss	**(18,291)**	**(44,576)**
Share in Net Unrealized Loss on Available-for-sale financial Assets of an associate	**-**	**(76,695)**
Surplus Reserves	**1,265**	**-**
Cumulative translation adjustment	**6,492**	**4,659**
Items that do not recycle to profit or loss in subsequent periods:		
Remeasurement gain on defined benefit asset or liability	**(334)**	**(198,350)**
Other Comprehensive Income for the year	**(121,665)**	**54,699**
Total Comprehensive Income for the year	**1,377,923**	**1,526,220**
Total comprehensive income attributable to:		
Equity holders of the Parent Company	1,375,422	1,524,251
Non-controlling Interest	2,499	1,969
	1,377,923	**1,526,220**

CHINA BANKING CORPORATION

ANNEX IV

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Amounts in thousands)

	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus Free	Net unrealized gains (losses) on FVOCI	Remeasurement gain on defined benefit asset or liability	Remeasurement on life insurance reserve of an associate	Cumulative Translation Adjustment	Total	Minority Interest	Total Equity
Balance at December 31, 2017, as previously reported	26,847,717	17,096,228	926,689	40,360,564	(1,813,280)	283,763	(12,221)	(38,698)	83,650,763	4,736	83,655,500
Effect of PFRS 9 adoption:	-	-	-	(3,803,205)	1,761,420	-	-	-	(2,041,785)	-	(2,041,785)
Balance at December 31, 2017, as restated	26,847,717	17,096,228	926,689	36,557,359	(51,860)	283,763	(12,221)	(38,698)	81,608,978	4,736	81,613,714
Total comprehensive income for the year	-	-	1,265	1,497,939	(130,006)	(334)	-	6,558	1,375,422	2,499	1,377,921
Transfer from Surplus to Surplus Reserves	-	-	25,065	(25,065)	-	-	-	-	-	-	-
CBC shares subscription	11,281	26,397	-	-	-	-	-	-	37,678	-	37,678
Balance at March 31, 2018	26,858,998	17,122,626	953,019	38,030,233	(181,866)	283,429	(12,221)	(32,140)	83,022,079	7,235	83,029,314
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	-	-	-	1,469,801	247,994	(198,079)	-	4,535	1,524,251	1,969	1,526,220
Transfer from Surplus to Surplus Reserves	-	-	22,959	(22,959)	-	-	-	-	0	-	-
Balance at March 31, 2017	20,020,278	6,987,564	884,590	38,335,941	(1,350,605)	55,866	-	(17,965)	64,915,669	(3,245)	64,912,424

-

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

		MARCH 2018		MARCH 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	1,730,956	P	1,779,384
Adjustment to reconcile income before income tax to net				
cash provided operations:				
Provision for probable losses		171,494		124,277
Depreciation and amortization		363,815		288,716
Trading Gain/Loss on AFS		(130,006)		247,994
Gain on sale of investment properties		(38,537)		(28,441)
Operating income before changes in operating assets and liabilities		**2,097,722**		**2,416,465**
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL		2,764,067		(186,695)
Loans and receivables		(1,773,631)		15,413,949
Other assets		(396,305)		(386,463)
Increase (decrease) in the amounts of:				
Deposit liabilities		(21,454,677)		(11,062,912)
Manager's checks		(619,458)		532,478
Accrued interest and other expenses		409,813		230,844
Other liabilities		1,653,053		(1,526,919)
Net cash provided by operations		**(17,319,416)**		**5,426,211**
Income taxes paid		(165,153)		(160,618)
Net cash provided by operating activities		**(17,484,568)**		**5,265,592**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to bank premises, furniture, fixtures and equipment		(337,133)		(416,311)
Proceeds from sale of investment properties		35,443		171,845
Adjustment of minority interest		852		248
Decrease (increase) in equity investments		-		85,343
Decrease (increase) in the amounts of:				
AFS financial assets		39,769,253		3,687,692
HTM financial assets		(41,925,017)		(5,601,700)
Net cash provided by (used in) investing activities		**(2,456,602)**		**(2,072,884)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in bills payable		(7,684,258)		(2,692,945)
Issuance of Additional Shares		37,678		-
Net cash provided by financing activities		**(7,646,579)**		**(2,692,945)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(27,587,749)**		**499,764**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items		12,685,984		12,010,543
Due from Bangko Sentral ng Pilipinas		98,490,014		91,964,495
Due from Other banks		15,641,476		11,332,236
Interbank loans receivable and securities purchased under				
resale agreements		18,751,845		3,451,543
		145,569,321		**118,758,816**
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		9,147,367		8,749,659
Due from Bangko Sentral ng Pilipinas		92,494,241		90,112,865
Due from Other banks		8,516,439		13,696,056
Interbank loans receivable and securities purchased under				
resale agreements		7,823,525		6,700,000
	P	**117,981,572**	P	**119,258,580**

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Bills payable		
December 31, 2017		**20,118,031**
Cash Flows		
Proceeds	31,837,084	
Settlement	(40,571,134)	(8,734,050)
Non-cash changes		
Foreign exchange movement	1,049,792	
Amortization of transaction cost	-	1,049,792
March 31, 2018		**12,433,773**

China Banking Corporation
Aging of Loans and Receivables
March 31, 2018

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, net of Unamortized Discount	**454,862,116**	445,718,167	3,811,117	752,727	813,749	2,828,453	**8,206,046**	937,902
Less: Allow for Probable Losses	8,936,527							
Net Loans and Receivables	**445,925,589**							
Accounts Receivables	**3,065,326**	**2,026,498**	98,159	63,038	18,585	859,046	**1,038,827**	-
Less:Allowance for Probable Losses	331,401							
Net Accounts Receivables	**2,733,925**							
Accrued Interest Receivables	**3,975,230**	3,975,230						
Less:Allowance for Probable Losses	305,482							
Net Accrued Interest Receivables	**3,669,748**							

CHINA BANKING CORPORATION **ANNEX VII**

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 auto loans and credit cards for individual and/or corporate customers. Aside from the lending business, it also provides cash management services and remittance transactions;

b. Retail Banking Business - principally handles retail and commercial loans, individual and corporate deposits, overdrafts and funds transfer facilities, trade facilities and all other services for retail customers;

c. Financial Markets - principally provides money market, trading and treasury services, manages the Bank's funding operations through the use of government securities, placements and acceptances with other banks as well as offers advisory and capital-raising services to corporate clients and wealth management services to high net-worth customers; and

d. Others – handles other services including but not limited to trust and investment management services, asset management, insurance brokerage, credit management, thrift banking business, operations and financial control, and other support services.

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

Segment assets are those operating assets that are employed by a segment in its operating activities that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net as management primarily relies on the net interest income as a measure of performance, instead of gross income and expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool of funds rate which approximates the marginal cost of funds.

Other operating income mainly consists of trading and securities gain (loss) - net, service charges, fees and commissions, trust fee income and foreign exchange gain - net. Other operating expense mainly consists of compensation and fringe benefits, provision for impairment and credit losses, taxes and licenses, occupancy, depreciation and amortization, stationery, supplies and postage and insurance. Other operating income and expense are allocated between segments based on equitable sharing arrangements.

The Bank has no significant customers which contribute 10% or more of the consolidated revenues.

The Bank's asset-producing revenues are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is not presented.

The following tables present relevant information regarding business segments as of March 31, 2018:

CHINABANK

PROFITABILITY REPORT BY BUSINESS SEGMENT
FOR THE PERIOD ENDING MARCH 31, 2018
CONSOLIDATED
(Amounts in thousands of Pesos)

	LENDING BUSINESS	RETAIL BANKING BUSINESS	FINANCIAL MARKETS	OTHER BUSINESS & SUPPORT UNITS	BANKWIDE
Net interest income	4,004,729	(23,841)	950,476	360,203	5,291,567
Third Party Intersegment	(2,567,707)	2,389,230	(123,193)	301,670	-
Net Interest Income after Intersegment Transactions	1,437,022	2,365,389	827,283	661,873	5,291,567
Other Operating Income	312,074	410,132	(1,364)	131,065	851,907
Total Revenue	1,749,096	2,775,522	825,919	792,937	6,143,474
Other Operating expense	(366,503)	(1,645,017)	(177,400)	(2,223,597)	(4,412,517)
Income before income tax	1,382,593	1,130,505	648,519	(1,430,660)	1,730,956
Income tax provision	56,161	-	(147,866)	(139,665)	(231,370)
Net Income	1,438,754	1,130,505	500,653	(1,570,325)	1,499,586
Total Assets	298,680,139	423,976,278	137,674,376	(136,896,011)	723,434,782
Total Liabilities	1,308,396	447,023,488	52,734,834	139,338,750	640,405,468
Depreciation & Amortization	16,548	108,633	11,460	227,174	363,815
Provision for impairment and credit losses	(66,137)	(83,730)	(1,557)	322,918	171,494
Capital Expenditures	7,533	37,475	3,388	42,286	90,682

ANNEX VIII

Financial Soundness Indicators

PROFITABILITY (%)	***Jan – Mar 2018***	*Jan – Mar 2017*
Return on Average Equity	**7.09**	9.15
Return on Average Assets	**0.81**	0.93
Cost to income ratio	**69.03**	66.37
Net Interest Margin	**3.06**	3.02
LIQUIDITY (%)	***Mar 2018***	*Dec 2017*
Liquid Assets to Total Assets	**34.16**	36.40
Loans to Deposit Ratio	**72.67**	70.69
ASSET QUALITY (%)	***Mar 2018***	*Dec 2017*
Gross NPL Ratio	**1.32**	1.41
Non-performing Loan (NPL) Cover	**148.90**	99.02
SOLVENCY	***Mar 2018***	*Dec 2017*
Debt to Equity Ratio	**7.71**	7.98
Asset to Equity Ratio	**8.71**	8.98
Interest Coverage Ratio	**1.77**	2.09*
CAPITAL ADEQUACY (%)	***Mar 2018***	*Dec 2017*
CET 1 Capital Ratio	**12.79**	13.47
Tier 1 Capital Ratio	**12.79**	13.47
Total Capital Adequacy Ratio	**13.65**	14.22

**for Jan-Mar 2017*

Definition of Ratios

Profitability Ratios:

Return on Average Equity	-	<u>Net Income after Income Tax</u> Average Total Equity
Return on Average Assets	-	<u>Net Income after Income Tax</u> Average Total Assets
Cost-to-Income Ratio	-	<u>Operating Expenses excl Provision for Impairment & Credit Losses</u> Total Operating Income
Net Interest Margin	-	<u>Net Interest Income</u> Average Interest Earning Assets

Liquidity Ratios:

Liquid Assets to Total Assets	-	<u>Total Liquid Assets</u> Total Assets
Loans to Deposit Ratio	-	<u>Loans (Net)</u> Deposit Liabilities

Asset Quality Ratios:

Gross NPL Ratio		<u>Gross Non-Performing Loans</u> Gross Loans
Non-Performing Loan (NPL) Cover	-	<u>Gross Loan Loss Reserves</u> Gross Non-Performing Loans

Solvency Ratios:

Debt to Equity Ratio	-	<u>Total Liabilities</u> Total Equity
Asset to Equity Ratio	-	<u>Total Assets</u> Total Equity
Interest Coverage Ratio	-	<u>Net Income Before Tax and Interest Expense</u> Interest Expense

Capital Adequacy Ratio:

Capital to Risk Assets Ratio	-	BSP prescribed formula:
CET 1 CAR	-	<u>CET 1 Capital</u> Total Risk Weighted Assets
Tier 1 CAR	-	<u>Tier 1 Capital</u> Total Risk Weighted Assets
Total CAR	-	<u>Total Qualifying Capital</u> 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)

In Million Pesos	***Jan – Mar 2018***	*Jan – Mar 2017*
Gross Revenues	**8,382**	7,298
Gross Expenses	**6,883**	5,827
Net Income	**1,500**	1,472

In Million Pesos	***Mar 2018***	*Dec 2017*
Total Resources	**723,435**	751,448
Loan Portfolio (Net)	**445,926**	448,971
Total Deposits	**613,639**	635,093
Equity	**83,029**	83,655

Key Performance Indicators

PROFITABILITY (%)	***Jan – Mar 2018***	*Jan – Mar 2017*
Return on Average Equity	**7.09**	9.15
Return on Average Assets	**0.81**	0.93
Cost to income ratio	**69.03**	66.37
Net Interest Margin	**3.06**	3.02
LIQUIDITY (%)	***Mar 2018***	*Dec 2017*
Liquid Assets to Total Assets	**34.16**	36.40
Loans to Deposit Ratio	**72.67**	70.69
ASSET QUALITY (%)	***Mar 2018***	*Dec 2017*
Gross NPL Ratio	**1.32**	1.41
Non-performing Loan (NPL) Cover	**148.90**	99.02
SOLVENCY	***Mar 2018***	*Dec 2017*
Debt to Equity Ratio	**7.71**	7.98
Asset to Equity Ratio	**8.71**	8.98
Interest Coverage Ratio	**1.77**	2.09*
CAPITAL ADEQUACY (%)	***Mar 2018***	*Dec 2017*
CET 1 Capital Ratio	**12.79**	13.47
Tier 1 Capital Ratio	**12.79**	13.47
Total Capital Adequacy Ratio	**13.65**	14.22

**for Jan-Mar 2017*

Economic Environment

The US economy grew by 2.3% in 1Q 2018 on the back of sustained private domestic investments and recovery in net exports. The US Federal Reserve tightened anew policy rates by 25 bps to 1.5% - 1.75% as inflation hit the 2% target in March and non-farm payrolls increased by over 600,000 from year-end. The US Fed is expected to maintain its hawkish stance as the impact of tax cuts and pump-priming trickle down to the economy. China's GDP expanded by 6.8% mainly supported by growth in the services and manufacturing sectors. However, a slowdown is expected due to deleveraging and the repercussions of growing US protectionism.

On the domestic front, GDP grew 6.8% on the back of robust investments spending and expansion in the industry sector despite the deceleration in consumption. The oil price uptick and upward pressures from the implementation of TRAIN Package 1 pushed the first quarter average inflation rate to 3.8%, which was at the high-end of BSP's 3% ± 1 pp target for the year. Cash remittances coursed through banks also went up by 7.1% to $4.6 billion in the first two months of the year. The government's budget deficit widened to P162.2 billion as infrastructure spending jumped 33.7% from a year ago to P157.2 billion in the first quarter. Meanwhile, the country's current account deficit in 2017 rose 110% to US$2.5 billion with the larger trade gap. Gross international reserves slightly declined to US$80.1 billion which could cover 7.8 months' worth of imports. As a result, the Philippine Peso depreciated to US$1.00: P52.16 by March-end.

Domestic liquidity grew 14.4% in March to P10.9 trillion. The BSP has kept policy rates steady at 3% in March (raised to 3.25% in May) while it reduced the reserve requirement ratio to 19% in February.

The combined assets of the UK/B & TB industry expanded 11.3% year-on-year to P15.1 trillion in March. Loans-to-deposit ratio inched up to 70.2% as loan portfolio (up 17.2%) grew faster than deposits (up 12.6%). Gross NPL ratio improved to 1.8%, while loan loss coverage rose to 126%. Major banks raised about P76 billion in fresh funds to support business expansion and prepare for the D-SIB implementation. The UK/B industry remained well-capitalized with total CAR ratios of 14.37% (solo) and 14.98% (consolidated) in December 2017, which were above the regulatory minimum.

Results of Operation

Analysis of Consolidated Statements of Income (unaudited)
For the period ended March 31, 2018 and March 31, 2017

For the first quarter of the year, the Bank recorded a **net income** of P1.50 billion, 1.91% higher than the P1.47 billion recorded in the same period last year due to higher operating income, resulting in a return on equity of 7.09% and return on assets of 0.81%.

Total interest income increased 23.28% to P7.53 billion from P6.11 billion. **Interest income from loans and receivables** was up 22.49% to P6.16 billion from P5.03 billion on the back of robust year-on-year loan portfolio expansion. **Interest income from trading and investments** was 30.59% higher at P1.18 billion from the year-on-year build-up in securities holdings. **Interest income from due from BSP and other banks** likewise increased 8.01% to P190.26 million because of the annual growth in placements with the *Bangko Sentral ng Pilipinas* and correspondent banks.

Total interest expense amounted to P2.24 billion, P600.85 million or 36.68% larger than last year due to the uptick in funds, including the second tranche of LTNCDs worth P6.35 billion issued by the Bank in June 2017. **Interest expense on deposit liabilities** increased 40.17% to P2.15 billion arising from the annual deposit expansion, while **interest expense on bills payable and other borrowings** dropped by P16.43 million or 16.20% to P84.99 million due to lower fund borrowings.

Net Interest income increased P820.96 million or 18.36% to P5.29 billion, due to the increase in the Bank's earning assets, resulting in the 4-bp year-on-year improvement in **net interest margin** to 3.06% from 3.02%.

Provision for impairment and credit losses totaled P171.49 million, P47.22 million or 37.99% higher year-on-year on the back of sustained loan expansion.

Total **non-interest income** declined by P337.64 million or 28.38% mainly from the drag from **trading and securities gain** which fell by P406.93 million to (P292.93) million, because of rate volatility that affected both the dealership business and returns on tradable securities. Also, **income from assets acquired** was 79.02% lower at P38.54 million because of lower sales of foreclosed properties. Meanwhile, **service charges, fees, and commissions** increased 7.91% to P575.80 million from the upswing in investment banking and other transactional fees. **Foreign exchange gain** increased to P140.20 million from P92.65 million because of the month-to-month movement in the Peso-Dollar exchange rate. **Miscellaneous income** increased 46.95% to P390.31 million from higher bancassurance revenues.

Operating expenses (excluding provision for impairment and credit losses) rose 12.90% to P4.24 billion as the Bank continued to expand its distribution network and employee base. **Compensation and fringe benefits** increased 18.20% to P1.45 billion from the increase in human resource complement. **Occupancy costs** and **depreciation & amortization** were up 8.47% and 26.01% to P477.52 million and P363.82 million, respectively, as the Bank undertook additional capital outlay related to the business & network expansion. Likewise, **repairs and maintenance** were 23.45% higher at P33.90 million from various technology platform upgrades/ developments. **Taxes and licenses** were up 14.20% to P701.41 million mainly from higher documentary stamp tax. **Insurance**, which includes PDIC premium payments, grew 16.56% to P400.23 million with the year-on-year increase in deposits. **Entertainment, amusement and recreation** increased 8.97% to P57.66 million from the booking of larger marketing- and selling-related expenses.

Consolidated **cost-to-income ratio** was reported at 69.03%, higher than the 66.37% recorded last year.

Financial Condition

Analysis of Consolidated Statement of Financial Condition
As of March 31, 2018 (unaudited) and December 31, 2017 (audited)

Assets totaled P723.43 billion, 3.73% lower than year-end 2017 but P103.04 billion or 16.61% higher from the same period last year.

Cash and other cash items fell 27.89% to P9.15 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from *Bangko Sentral ng Pilipinas*** was down P6.00 billion or 6.09%, mainly from the drop in reserves which, in turn, resulted from the year-to-date reduction in outstanding deposits to P613.64 billion. **Due from other banks** decreased 45.55% to P8.52 billion from the decline in deposits with correspondent banks. The Bank's **interbank loans receivable and securities purchased under resale agreements** also dropped by P10.93 billion or 58.28% to P7.82 billion as the Bank reduced its overnight placements with the BSP.

Total investment securities amounted to P129.16 billion, up P1.19 billion year-to-date from the increased holdings of **Investment Securities at Amortized Cost** by P 41.93 billion or 64.22% to P107.21 billion. Meanwhile, **financial assets at fair value through profit & loss (FAVPL)** decreased P2.76 billion or 17.02% to P13.47 billion; and **investment Securities at Fair Value through Other Comprehensive Income** dropped by P37.97 billion to P8.48 billion due to prior disposal and reclassification with the adoption of PFRS-9 standards. The Bank's securities portfolio accounted for 17.85% of consolidated resources, higher than the 17.03% at year-end.

Gross loan portfolio (inclusive of UDSCL) was at P455.13 billion, up 20.27% or P76.72 billion year-on-year with the sustained credit demand across all market segments. **Loans (net, inclusive of UDSCL)** stood at P445.93 billion.

The booking of additional provision for probable losses raised **deferred tax assets** by P1.05 billion to P2.83 billion. **Other assets** went up by P483.39 million or 7.77% to P6.70 billion due to higher prepaid expenses.

Total deposits ended at P613.64 billion, of which CASA (demand and savings deposits) amounted to P338.73 billion. Low-cost funding mix of 55.20% exceeded the 2017-end ratio of 54.01%.

Bills payable fell by P7.68 billion or 38.20% to P12.43 billion with the drop in in the Bank's foreign currency-denominated borrowings. **Manager's checks** declined 25.38% to P1.82 billion because of the slowdown in demand from branch customers. **Income tax payable** was at P662.41 million, a P300.37 million or 82.96% uptrend year-to-date due to higher regular corporate income tax payable for the year. **Accrued interest and other expenses** were 15.60% larger at P3.04 billion because of the booking of accruals and payroll expenses. **Derivative liabilities** significantly dropped to P143.04 million from P267.53 million because of lower volume of currency swaps during the period. **Other liabilities** increased by P1.78 billion to P7.50 billion mainly from higher accounts payable and inter-agency liabilities.

Total equity (including minority interest) reached to P83.03 billion, slightly lower than last year's P83.66 billion mainly from the P2.33 billion drop in **surplus** due to PFRS-9 adjustments. **Net unrealized loss on available-for-sale financial assets** improved by P1.63 billion to (P181.87) million from (P1.81) billion in December arising from the mark-to-market revaluation of the Bank's unsold securities, as well as adjustments due to the new reporting standard. Meanwhile, **cumulative translation adjustment** was recorded at (P32.14) million.

The Bank's Common Equity Tier 1 (CET 1/ Tier 1) ratio and total CAR were computed at 12.79% and 13.65%, respectively.

Total Comprehensive Income
For the period ended March 31, 2018 and March 31, 2017

The Bank recorded **total comprehensive income** of P1.38 billion during the first quarter of the year, a P150.14 million drop from the P1.53 billion recorded last year mainly from the P454.17 million drag in net unrealized loss on AFS investments.

Key Performance Indicators

Profitability
CHIB's net income of P1.50 billion resulted in a 7.09% ROE and 0.81% ROA given improved operating income. Cost-to-income ratio was slightly higher at 69.03% from the 66.37% last 1Q 2017 as the Bank continued its expansion program. Net interest margin was slightly higher at 3.06% from 3.02% due to the year-on-year improvement in yields and earning assets.

Liquidity
The Bank's liquidity ratio (the ratio of liquid assets to total assets) was lower at 34.16% from 36.40% in December 2017 due to the year-to-date drop in cash, due from BSP, due from other banks, and other liquid assets.

Asset Quality
Gross NPL ratio was computed at 1.32% from 1.41% in December 2017. Meanwhile, consolidated loan loss coverage ratio widened to 148.90% from 99.02%.

Solvency Ratios
Debt-to-equity ratio was at 7.71 in March 2018 versus 7.98 in December 2017; asset-to-equity ratio was at 8.71 versus 8.98 at year-end. Interest coverage ratio for the period stood at 1.77 as against 2.09 for first quarter of 2017.

Capitalization
China Bank's CET 1 / Tier 1 CAR and Total CAR ratios were registered at 12.79% and 13.65%, respectively. The Bank's capital is largely comprised of CET 1/ Tier 1 (core) capital.

Corporate Developments

The Board of Directors, at the annual stockholders' meeting last May 3, 2018, declared cash dividends of P0.83 per share, or a cash dividend yield of 2.38% based on the share price as of May 2. Total dividends of P2.23 billion represented 30% of full-year 2017 net income of P7.52 billion. The aggregate dividend payout was 12% higher than last year's declaration of P1.99 billion. Payment is scheduled on June 1.

The stockholders approved the nomination/ election to the Board of Directors of Hans T. Sy and Gilbert U. Dee as chairman and vice chairman, respectively. The incumbent directors were also re-elected: William C. Whang, Peter S. Dee, Joaquin T. Dee, Harley T. Sy, Herbert T. Sy, Jose T. Sio; and independent directors Roberto F. Kuan (lead independent director), Alberto S. Yao, and Margarita L. San Juan. Henry Sy, Sr. remained honorary chairman and advisor to the Board, along with Ricardo R. Chua. Likewise, the shareholders approved the increase in the number of directors from 11 to 12 and amendment of the Article Fifth of the amended articles of incorporation and Article IV, Section 1 of the by-laws.

At the management level, the Bank designated the following officers in key positions: Mr. Ryan L. Tapia was appointed as President of the Bank's investment house subsidiary, China Bank Capital (CBC Capital); meanwhile, Atty. Aileen Paulette de Jesus and Ms. Mary Ann T. Lim were appointed Chief Compliance Officer and Head of the Trust & Asset Management Group, respectively.

For the second year in a row, China Bank was awarded "Best Bank for Corporate Governance Philippines 2017" and "Best Investor Relations Bank Philippines 2017" by UK-based financial portal and print magazine Global Banking & Finance Review.

The investment banking arm, CBC Capital also received numerous awards for some of its deals during the quarter. At the Triple Asset Country Awards, the investment house received "Best Local Bond Currency – Domestic"; "Best Local Currency Bond" for Ayala Land's P4.3-billion short-dated notes; "Best Corporate Bond" for Ayala Corporation's USD 400-million fixed rate bonds; and "Best Follow-On" for Del Monte Pacific's USD 200-million preferred shares. Likewise, CBC Capital garnered "Best Bond Deal for Retail Investors in Southeast Asia", for its participation in the P181-billion retail treasury bonds issued by the Bureau of Treasury, at Alpha East Asia's 11th Annual Best Deal & Solution Awards. At the 3rd Investment House Association of the Philippines (IHAP) Awards, CBC Capital was named "Best Fixed Income House" and received various distinctions— "Best Fixed Income Deal", "Best Equity Deal", and "Deal of the Year".

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-Mar '18***	*Jan-Dec '17*	*Jan-Mar '17*
Net Income	27	45	9
Total Assets	828	785	644

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

(In Mn Pesos)	***Jan-Mar '18***	*Jan-Dec '17*	*Jan-Mar '17*
Net Income	16	6	15
Total Assets	54	39	44

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

(In Mn Pesos)	***Jan-Mar '18***	*Jan-Dec '17*	*Jan-Mar '17*
Net Income	112	502	96
Total Assets	87,331	87,178	84,646

- **China Bank Capital Corporation**

(In Mn Pesos)	***Jan-Mar '18***	*Jan-Dec '17*	*Jan-Mar '17*
Net Income	49	280	32
Total Assets	1,677	1,627	859