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August 14, 2018

PHILIPPINE STOCK EXCHANGE, INC.
Disclosure Department
6F PSE Tower One Bonifacio High Street
28th Street corner 5th Avenue Bonifacio Global City
Taguig City

Attention: **Ms. Janet A. Encarnacion**
Head - Disclosure Department

PHILIPPINE DEALING & EXCHANGE CORP.
37/F Tower 1, The Enterprise Center
6766 Ayala Avenue cor Paseo de Roxas
Makati City

Attention: **Ms. Vina Vanessa S. Salonga**
Head - Issuer Compliance and Disclosure Department

Gentlemen:

We are pleased to furnish your good office with a copy of our SEC Form 17-Q as of June 30, 2018 filed with the Securities and Exchange Commission (SEC). For your information and guidance.

Thank you.

Very truly yours,

CAEscucha

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

COVER SHEET

4	4	3								

SEC Registration Number

C H I N A   B A N K I N G   C O R P O R A T I O N   A N D   S U B
S I D I A R I E S

(Company's Full Name)

8 7 4 5   P a s e o   d e   R o x a s   c o r n e r   V i l l a r
S t r e e t s ,   M a k a t i   C i t y

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

Patrick D. Cheng	885-5555
(Contact Person)	(Company Telephone Number)

0 6	3 0	1 7 - Q		
Month	*Day*	(Form Type)	*Month*	*Day*
(Fiscal Year)			(Annual Meeting)	

(Secondary License Type, If Applicable)

Corporate Governance and Finance Dept.	
(Department Requiring this document)	(Amended Articles Number/Section)

Total Amount of Borrowings

1,935		
Total No. of Stockholders	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 **June 30, 2018**

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
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………………………………………………………………….. August 14, 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.

   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 P1.77 billion and P1.67 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 P3.58 billion and P3.07 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:

	June 30, 2018	December 31, 2017	Increase (Decrease)
Assets			
Cash and Other Cash Items	9,467,010	12,685,984	(3,218,974)
Due from Other Banks	8,405,043	15,641,476	(7,236,433)
Interbank Loans Receivable and Securities Purchased Under Resale Agreement	3,666,700	18,751,845	(15,085,145)
Financial Assets at Fair Value through Profit or Loss	6,367,594	16,238,888	(9,871,294)
Financial Assets at Fair Value through Other Comprehensive Income/AFS	16,597,044	46,445,391	(29,848,347)
Financial Assets at Amortized Cost/HTM	130,103,850	65,286,267	64,817,583
Accrued Interest Receivable	4,495,137	3,718,505	776,632
Investments in Associates	254,286	329,422	(75,137)
Deferred Tax Assets	2,515,782	1,778,081	737,701
Other Assets	7,224,342	6,218,895	1,005,447
Liabilities			
Bills Payable	16,080,828	20,118,031	(4,037,203)
Manager's Checks	1,552,526	2,441,042	(888,516)
Income Tax Payable	531,008	362,041	168,967
Other Liabilities	8,996,748	5,720,701	3,276,048

	June 30, 2018	June 30, 2017	Increase (Decrease)
Income			
Interest on Loans and Receivable	12,799,942	10,189,556	2,610,386
Interest on Trading and investments	2,587,881	1,900,054	687,827
Interest on Due from BSP and other banks	336,174	389,972	(53,798)
Trading and Securities Gain (Loss)	(194,361)	298,725	(493,086)
Foreign Exchange Gain (Loss) - net	75,704	167,939	(92,235)
Income from Asset Acquired	224,595	370,822	(146,226)
Miscellaneous	783,988	994,349	(210,361)
Expense			
Interest on Deposit Liabilities	4,454,789	3,020,110	1,434,679
Compensation and Fringe Benefits	3,055,798	2,552,510	503,288
Taxes and Licenses	1,363,643	1,190,859	172,783
Occupancy costs	1,069,343	936,677	132,667
Provision for impairment and credit losses	(25,767)	324,403	(350,171)
Insurance	805,717	682,689	123,029
Repairs and Maintenance	59,850	49,759	10,090
Entertainment, amusement and recreation	136,476	109,420	27,056
Miscellaneous	1,481,837	1,368,761	113,076
Provision for Income Tax	985,872	883,198	102,674

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. Cash dividend was paid on June 1, 2018.

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).

Capital Infusion to China Bank Savings, Inc. On June 6, 2018, the Parent Company Board of Directors approved the Bank's capital infusion of ₱500 million to China Bank Savings, Inc.(CBSI) to support its business expansion.

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**. *Long Term Negotiable Certificates of Deposits (LTNCD)*. On July 12, 2018, the Parent Company issued at par LTNCDs with aggregate principal amount of P10.25 billion due January 12, 2024, representing the first tranche of the P20 billion LTNCD approved by BSP on June 14, 2018. The LTNCDs are included under the 'Time deposit liabilities' account. The LTNCDs bear a fixed coupon rate of 4.55% per annum, payable quarterly in arrears. The P20 billion LTNCD program is part of the Group's funding program amounting to P50 billion discussed in Item e.

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 June 30, 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:

	June 30, 2018		December 31, 2017 (Audited)	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Financial Assets				
Financial Assets at Amortized Cost/HTM				
Government bonds	**₱ 98,015,007**	**₱ 90,322,083**	₱52,998,477	₱51,488,294
Private bonds	**32,088,842**	**31,071,906**	12,287,790	12,110,870
Loans and receivables				
Corporate and commercial loans	**382,653,256**	**358,720,829**	365,117,654	349,880,762
Consumer loans	**73,550,450**	**72,878,188**	71,577,984	74,207,566
Trade-related loans	**12,614,861**	**12,850,199**	12,062,711	12,041,107
Others	**629,440**	**659,398**	212,593	196,307
Sales contracts receivable	**967,394**	**1,055,737**	918,147	1,060,191
Financial Liabilities				
Deposit liabilities	**278,854,445**	**273,388,668**	292,083,031	282,586,204
Bills payable	**16,080,828**	**15,748,851**	–	–

As of June 30, 2018 and December 31, 2017, the fair value hierarchy of the Group's assets and liabilities are presented below:

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Recurring fair value measurements				
Financial assets at FVPL				
Held-for-trading				
Government bonds	**649,737**	**530,627**	**-**	**1,180,364**
Treasury notes	**-**	**851,997**	**-**	**851,997**
Treasury bills		**1,550,792**	**-**	**1,550,792**
Private bonds	**750,897**		**-**	**750,897**
Quoted equity shares	**549,680**			**549,680**
Financial assets designated at	**868,815**			**868,815**

	June 30, 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
FVPL		-	-	
Derivative assets	-	**615,048**	-	**615,048**
Financial Assets at FVOCI	-			
Government bonds	**5,317,335**	**11,124,369**	-	**16,441,704**
Quoted private bonds	**25,938**		-	**25,938**
Quoted equity shares	**111,038**	-	**18,364**	**129,402**
	8,273,440	**14,672,833**	**18,364**	**22,964,637**
Financial liabilities at FVPL				
Derivative liabilities	-	**248,242**	-	**248,242**
	-	**143,043**	-	**143,043**
Fair values of assets carried at amortized cost/cost				
Financial Assets at Amortized Cost				
Government bonds	**90,322,083**	-	-	**90,322,083**
Private bonds	**31,071,906**	-	-	**31,071,906**
Loans and receivables				
Corporate and commercial loans	-	-	**358,720,829**	**358,720,829**
Consumer loans	-	-	**72,878,188**	**72,878,188**
Trade-related loans	-	-	**12,850,199**	**12,850,199**
Others	-	-	**659,398**	**659,398**
Sales contracts receivable	-	-	**1,055,737**	**1,055,737**
Investment properties				
Land	-	-	**7,267,908**	**7,267,908**
Buildings and improvements	-	-	**2,979,459**	**2,979,459**
	121,393,989	-	**456,411,718**	**577,805,707**
Fair values of liabilities carried at amortized cost				
Deposit liabilities	-	-	**273,388,668**	**273,388,668**
Bills payable	-	-	**15,748,851**	**15,748,851**
	-	-	**289,137,519**	**289,137,519**

	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
	₱–	₱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				

	December 31, 2017 (Audited)			
	Level 1	Level 2	Level 3	Total
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 ₱24.24 million, and ₱22.67 million for the six-month periods ended June 30, 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:

	June 30, 2018	December 31, 2017 (Audited)
Balance Sheet		
Deposit in banks	**₱485,991**	₱486,822
Equity Investments	**1,882,862**	1,777,250
Total market value	**1,882,862**	1,777,250
Number of shares held	**51,571**	51,571

	Six Months Ended June 30	
	2018	2017
Income Statement		
Dividend income	**₱51,571**	₱47,751
Interest income	**7,446**	1,368

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

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

	June 30, 2018		
Category	**Amount / Volume**	**Outstanding Balance**	**Terms and Conditions**
Significant Investor			
Loans and receivables		**6,793,550**	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	**110,825**		
Repayments	**–**		
Deposit liabilities		**210**	These are checking accounts with annual average rate of 0.13%.
Deposits	**1,860,835**		
Withdrawals	**(1,860,883)**		
Associates			
Deposit Liabilities		**2,847**	These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%.
Deposit	**324,236**		
Withdrawals	**(399,111)**		
Key Management Personnel			
Loans		**922**	Unsecured Officer's accounts from Credit card with interest of 3% and currently maturing and Fully secured OEL accounts with interest
Issuance	**332**		
Repayments	**(38,722)**		

Category	June 30, 2018 Amount / Volume	Outstanding Balance	Terms and Conditions
			of 6%;Secured; no impairment; with annual fixed interest rates ranging from 0% to 5.50%
Deposit Liabilities		**28,266**	These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00%
Deposits	**167,438**		
Withdrawals	**(157,944)**		
Other Related Parties			
Deposit Liabilities		**75,024**	These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%.
Deposit	**12,716,094**		
Withdrawals	**(12,692,633)**		

Category	December 31, 2017 (Audited) 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 six-month periods ended June 30, 2018 and June 30, 2017 are presented below:

	Significant Investor		**Associate**	
	June 30			
	2018	2017	**2018**	2017
Interest income	**₱ 10,804**	₱34,736	**₱–**	₱–
Interest expense	**1**	–	**55**	1,502

	Key Management Personnel		**Other Related Parties**	
	June 30			
	2018	2017	**2018**	2017
Interest income	**₱5**	₱–	**₱–**	₱–
Interest expense	**13**	24	**74**	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		
	June 30, 2018	December 31, 2017	**Nature, Terms and Conditions**
Balance Sheet			
Accounts receivable	**₱16,645**	₱2,741	This pertains to various expenses advanced by CBC in behalf of CBSI
Security deposits	**2,561**	2,736	This pertains to the rental deposits with CBSI and CBCC for office space leased out to the Parent Company
Accounts payable	**2,474**	10,607	This pertains to various unpaid rental to CBSI

	Subsidiaries		
	June 30, 2018	June 30, 2017	**Nature, Terms and Conditions**
Income Statement			
Miscellaneous income	**₱900**	₱900	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	**12,008**	11,918	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	**88,661**	89,821	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)

		June 2018 Unaudited	December 2017 Audited
ASSETS			
Cash and Other Cash Items	P	9,467,010	12,685,984
Due from Bangko Sentral ng Pilipinas		93,225,010	98,490,014
Due from Other banks		8,405,043	15,641,476
Interbank Loans Receivable and Securities Purchased under Resale Agreements		3,666,700	18,751,845
Financial Assets at Fair Value through Profit or Loss		6,367,594	16,238,888
Financial Assets at Fair Value through Other Comprehensive Income/Available-for-Sale Financial Assets		16,577,044	46,445,391
Financial Assets at Amortized Cost/Held-to-Maturity Financial Assets		130,103,850	65,286,267
Loans and Receivables - net		469,448,007	448,970,942
Accrued Interest Receivable		4,495,137	3,718,505
Investments in Associates		254,286	329,422
Bank Premises, Furniture, Fixtures and Equipment - net		6,793,164	6,875,864
Investment Properties		4,966,905	5,072,156
Deferred Tax Assets		2,515,782	1,778,081
Intangible Assets		4,087,807	4,104,032
Goodwill		839,748	839,748
Other Assets		7,224,342	6,218,895
	P	768,437,428	751,447,510

		June 2018 Unaudited	December 2017 Audited
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand		158,708,235	154,286,415
Savings		215,880,039	188,723,947
Time		278,854,445	292,083,031
		653,442,719	635,093,393
Bills Payable		16,080,828	20,118,031
Manager's Checks		1,552,526	2,441,042
Income Tax Payable		531,008	362,041
Accrued Interest and Other Expenses		2,822,470	2,627,619
Derivative Liabilities		248,242	267,533
Deferred Tax Liabilities		1,163,630	1,161,653
Other Liabilities		8,996,748	5,720,701
		684,838,172	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		952,653	926,689
Surplus		39,003,644	40,360,563
Net Unrealized Gains (Losses) on Financial Assets at FVOCI/AFS		(536,149)	(1,813,280)
Remeasurement Gain on Defined Benefit Asset		280,496	283,763
Remeasurement on Life Insurance Reserve of Associate		2,050	(12,221)
Cumulative Translation Adjustment		(93,512)	(38,698)
		83,590,805	83,650,761
Non-controlling Interest		8,452	4,736
		83,599,257	83,655,497
	P	768,437,428	751,447,510

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

	June 2018 Unaudited	December 2017 Audited
CONTINGENT ACCOUNTS		
Unused commercial letters of credit	**16,294,453**	**21,596,174**
Outstanding guarantees Issued	**348,664**	**3,079,993**
Inward bills for collection	**1,065,348**	**2,386,848**
Outward bills for collection	**83,273**	**93,772**
IRS receivable	**13,244,720**	**9,991,390**
Spot exchange bought	**7,230,606**	**996,333**
Spot exchange sold	**4,878,411**	**1,399,180**
Future exchange bought	**37,136,529**	**18,736,175**
Future exchange sold	**38,370,228**	**15,179,964**
Trust department accounts	**126,689,409**	**131,813,251**
Credit card Lines	**9,253,218**	**10,359,997**
Late deposits/payments received	**276,203**	**127,832**
Deficiency claims receivable	**290,879**	**291,831**
Standby credit commitment	**3,867,987**	**2,274,398**
Others	**2,216**	**1,614**
	259,032,145	**218,328,752**

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

		For the Semester Ended June 30		For the Quarter Ended June 30	
		2018	**2017**	**2018**	**2017**
INTEREST INCOME					
Loans and receivable	P	12,799,942	10,189,556	6,641,855	5,162,282
Trading and investments		2,587,881	1,900,054	1,405,789	994,852
Due from BSP and other banks		336,174	389,972	145,913	213,815
		15,723,998	12,479,582	8,193,557	6,370,950
INTEREST EXPENSES					
Deposit liabilities		4,454,789	3,020,110	2,300,907	1,483,509
Bills payable and other borrowings		210,877	229,720	125,885	128,299
		4,665,666	3,249,830	2,426,792	1,611,808
NET INTEREST INCOME		**11,058,332**	**9,229,752**	**5,766,765**	**4,759,141**
Trading and securities gain/(loss)		(194,361)	298,725	98,573	184,725
Service charges, fees and commissions		1,196,361	1,235,521	620,565	701,933
Foreign exchange gain- net		75,704	167,939	(64,497)	75,294
Income from asset acquired		224,595	370,822	186,058	187,111
Miscellaneous		783,988	994,349	393,681	728,744
TOTAL OPERATING INCOME		**13,144,618**	**12,297,107**	**7,001,144**	**6,636,948**
Compensation and fringe benefits		3,055,798	2,552,510	1,604,810	1,324,931
Taxes and licenses		1,363,643	1,190,859	662,236	576,674
Occupancy costs		1,069,343	936,677	591,821	496,462
Depreciation and amortization		646,773	599,495	282,958	310,780
Provision for impairment and credit losses		(25,767)	324,403	(197,262)	200,126
Insurance		805,717	682,689	405,492	339,335
Repairs and maintenance		59,850	49,759	25,952	22,300
Entertainment, amusement and recreation		136,476	109,420	78,820	56,513
Miscellaneous		1,481,837	1,368,761	726,327	606,678
TOTAL OPERATING EXPENSES		**8,593,669**	**7,814,574**	**4,181,152**	**3,933,799**
INCOME BEFORE INCOME TAX		**4,550,949**	**4,482,533**	**2,819,991**	**2,703,148**
PROVISION FOR INCOME TAX		985,872	883,198	754,502	575,335
NET INCOME	**P**	**3,565,077**	**3,599,335**	**2,065,489**	**2,127,813**
Attributable to:					
Equity holders of the parent		**3,561,457**	**3,595,635**	**2,063,518**	**2,125,834**
Minority interest		3,620	3,700	1,972	1,980
	P	**3,565,077**	**3,599,335**	**2,065,489**	**2,127,813**
Earnings Per Share					
a. Basic		1.33	1.73	0.77	0.98
b. Diluted *		1.33	1.73	0.77	0.98
Net Income		3,561,457	3,595,635	2,063,518	2,125,834
Weighted Ave. Number of Common Shares Outstanding		2,685,750	2,076,932	2,685,750	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

(Amounts in thousands)

	For the Semester Ended June 30		For the Quarter Ended June 30	
	2018	2017	2018	2017
Net Income	3,565,077	3,599,335	2,065,490	2,127,814
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	(374,863)	509,661	(264,066)	140,001
Gains taken to Profit or Loss	(15,458)	(82,325)	2,832	(37,749)
Share in Net Unrealized Loss on Available-for-Sale Financial Assets of an Associate	14,271	(119,936)	14,271	(43,241)
Surplus Reserves	2,451	-	1,187	-
Cumulative Translation Adjustment	(54,779)	(343)	(61,271)	(5,002)
Items that do not recycle to profit or loss in subsequent periods:				
Remeasurement Gain on Defined Benefit Asset or Liability	(3,267)	(151,189)	(2,933)	47,161
Other Comprehensive Income for the year	(431,646)	155,868	(309,981)	101,170
Total Comprehensive Income for the year	3,133,431	3,755,203	1,755,511	2,228,983
Total comprehensive income attributable to:				
Equity holders of the Parent Company	3,129,715	3,750,798	1,754,293	2,226,547
Non-controlling Interest	3,715	2,805	1,216	836
	3,133,431	3,755,203	1,755,511	2,228,983

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

Annex IV

	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus Free	Net unrealized gains (losses) on 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:	-	-	-	(2,665,567)	1,667,512	-	-	-	(998,055)	-	(998,055)
Balance at December 31, 2017, as restated	**26,847,717**	**17,096,228**	**926,689**	**37,694,997**	**(145,767)**	**283,763**	**(12,221)**	**(38,698)**	**82,652,708**	**4,736**	**82,657,444**
Total comprehensive income for the year	-	-	2,451	3,561,457	(390,382)	(3,267)	14,271	(54,815)	3,129,715	3,715	3,133,431
Transfer from Surplus to Surplus Reserves	-	-	23,512	(23,512)	-	-	-	-	-	-	-
CBC shares subscription	11,281	26,397	-	-	-	-	-	-	37,678	-	37,678
Cash Dividends - P0.83 per share	-	-	-	(2,229,297)	-	-	-	-	(2,229,297)	-	(2,229,297)
Balance at June 30, 2018	**26,858,998**	**17,122,626**	**952,653**	**39,003,644**	**(536,149)**	**280,496**	**2,050**	**(93,512)**	**83,590,805**	**8,452**	**83,599,257**
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	-	-	-	3,595,635	306,708	(151,069)	-	(476)	3,750,798	4,405	3,755,203
Transfer from Surplus to Surplus Reserves	-	-	22,959	(22,959)	-	-	-	-	0.00	-	0.00
Transaction costs	-	(26,097)	-	-	-	-	-	-	(26,097)	-	(26,097)
Issuance of common shares	4,838,710	10,149,434	-	-	-	-	-	-	14,988,144	-	14,988,144
Stock Dividend 8%	-	-	-	(1,988,719)	-	-	-	-	-	-	-
Cash Dividend P1.00 per share	-	-	-	(1,988,719)	-	-	-	-	(1,988,719)	-	(1,988,719)
Balance at June 30, 2017	**24,858,988**	**17,110,902**	**884,590**	**36,484,337**	**(1,291,891)**	**102,876**	**-**	**(22,977)**	**80,115,544**	**(809)**	**80,114,735**

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

		JUNE 2018		JUNE 2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P	4,551,815	P	4,482,533
Adjustment to reconcile income before income tax to net				
cash provided operations:				
Provision for probable losses		(25,767)		324,403
Depreciation and amortization		646,773		599,495
Trading Gain/Loss on AFS		(450,276)		306,708
Gain on sale of investment properties		(224,595)		(83,669)
Cumulative translation adjustment				(476)
Operating income before changes in operating assets and liabilities		**4,497,948**		**5,628,994**
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL		9,871,294		(3,149,177)
Loans and receivables		(23,986,902)		(10,166,121)
Other assets		(1,664,061)		1,076,365
Increase (decrease) in the amounts of:				
Deposit liabilities		18,349,326		12,456,351
Manager's checks		(888,516)		1,038,811
Accrued interest and other expenses		194,851		234,282
Other liabilities		3,256,758		(1,567,986)
Net cash provided by operations		**9,630,699**		**5,551,519**
Income taxes paid		(747,629)		(890,023)
Net cash provided by operating activities		**8,883,070**		**4,661,496**
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to bank premises, furniture, fixtures and equipment		(564,073)		(795,127)
Proceeds from sale of investment properties		197,102		269,433
Adjustment of minority interest		692		705
Decrease (increase) in equity investments		75,137		147,697
Decrease (increase) in the amounts of:				
AFS financial assets		31,648,919		(1,016,638)
HTM financial assets		(64,817,583)		(5,673,543)
Net cash provided by (used in) investing activities		**(33,459,806)**		**(7,067,473)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase (decrease) in bills payable		(4,037,203)		(4,591,663)
Payments of cash dividend		(2,229,297)		(1,988,719)
Issuance of Additional Shares		37,678		14,962,047.38
Net cash provided by financing activities		**(6,228,821)**		**8,381,666**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(30,805,557)**		**5,975,689**
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
		145,569,320		**118,758,816**
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items		9,467,010		8,656,120
Due from Bangko Sentral ng Pilipinas		93,225,010		94,358,454
Due from Other banks		8,405,043		12,138,986
Interbank loans receivable and securities purchased under				
resale agreements		3,666,700		9,580,945
	P	**114,763,763**	P	**124,734,505**

RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES		
Bills payable		
December 31, 2017		**20,118,031**
Cash Flows		
Proceeds	85,151,353	
Settlement	(90,557,442)	(5,406,089)
Non-cash changes		
Foreign exchange movement		1,368,887
June 30, 2018		**16,080,828**

China Banking Corporation
Aging of Loans and Receivables
June 30, 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	**476,892,413**	466,729,431	4,296,381	1,387,297	632,620	2,948,355	**9,264,653**	898,329
Less: Allow for Probable Losses & Unamotized Discount	7,444,405							
Net Loans and Receivables	**469,448,007**							
Accounts Receivables	**2,955,931**	**1,946,243**	49,080	11,072	56,186	893,350	**1,009,687**	-
Less:Allowance for Probable Losses	405,460							
Net Accounts Receivables	**2,550,470**							
Accrued Interest Receivables	**4,815,601**	4,815,601						
Less:Allowance for Probable Losses	320,464							
Net Accrued Interest Receivables	**4,495,137**							

ANNEX VII

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 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 June 30, 2018:

CHINABANK

PROFITABILITY REPORT BY BUSINESS SEGMENT
FOR THE PERIOD ENDING JUNE 30, 2018
CONSOLIDATED
(Amounts in thousands of Pesos)

	LENDING BUSINESS	RETAIL BANKING BUSINESS	FINANCIAL MARKETS	OTHER BUSINESS & SUPPORT UNITS	BANKWIDE
Net interest income	8,381,147	(68,884)	1,974,270	771,799	11,058,332
Third Party Intersegment	(5,499,199)	5,000,736	(70,310)	568,773	-
Net Interest Income after Intersegment Transactions	2,881,948	4,931,852	1,903,960	1,340,572	11,058,332
Other Operating Income	660,767	796,367	172,268	456,884	2,086,286
Total Revenue	3,542,715	5,728,219	2,076,228	1,797,456	13,144,618
Other Operating expense	(544,335)	(3,574,222)	(417,666)	(4,057,446)	(8,593,669)
Income before income tax	2,998,380	2,153,997	1,658,562	(2,259,990)	4,550,949
Income tax provision	112,189	-	(313,822)	(784,239)	(985,872)
Net Income	3,110,569	2,153,997	1,344,740	(3,044,229)	3,565,077
Total Assets	321,826,116	451,300,332	152,387,888	(157,076,908)	768,437,428
Total Liabilities	723,068	476,869,952	62,270,687	144,974,465	684,838,172
Depreciation & Amortization	32,380	214,557	23,047	376,789	646,773
Provision for impairment and credit losses	(344,189)	137,839	38,788	141,795	(25,767)
Capital Expenditures	13,440	65,779	7,494	99,406	186,119

ANNEX VIII

Financial Soundness Indicators

PROFITABILITY (%)	***Jan – Jun 2018***	*Jan – Jun 2017*
Return on Average Equity	**8.46**	10.44
Return on Average Assets	**0.96**	1.13
Cost to income ratio	**65.57**	60.91
Net Interest Margin	**3.16**	3.07
LIQUIDITY (%)	***Jun 2018***	*Dec 2017*
Liquid Assets to Total Assets	**34.85**	36.40
Loans to Deposit Ratio	**71.84**	70.69
ASSET QUALITY (%)	***Jun 2018***	*Dec 2017*
Gross NPL Ratio	**1.45**	1.41
Non-performing Loan (NPL) Cover	**107.30**	99.02
SOLVENCY	***Jun 2018***	*Dec 2017*
Debt to Equity Ratio	**8.19**	7.98
Asset to Equity Ratio	**9.19**	8.98
Interest Coverage Ratio	**1.98**	2.38*
CAPITAL ADEQUACY (%)	***Jun 2018***	*Dec 2017*
CET 1 Capital Ratio	**12.58**	13.47
Tier 1 Capital Ratio	**12.58**	13.47
Total Capital Adequacy Ratio	**13.32**	14.22

**for Jan-Jun 2017*

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)

In Million Pesos	***Jan – Jun 2018***	*Jan – Jun 2017*
Gross Revenues	**17,810**	15,547
Gross Expenses	**14,245**	11,948
Net Income	**3,565**	3,599

In Million Pesos	***Jun 2018***	*Dec 2017*
Total Resources	**768,437**	751,448
Loan Portfolio (Net)	**469,448**	448,971
Total Deposits	**653,443**	635,093
Equity	**83,599**	83,655

Key Performance Indicators

PROFITABILITY (%)	***Jan – Jun 2018***	*Jan – Jun 2017*
Return on Average Equity	**8.46**	10.44
Return on Average Assets	**0.96**	1.13
Cost to income ratio	**65.57**	60.91
Net Interest Margin	**3.16**	3.07
LIQUIDITY (%)	***Jun 2018***	*Dec 2017*
Liquid Assets to Total Assets	**34.85**	36.40
Loans to Deposit Ratio	**71.84**	70.69
ASSET QUALITY (%)	***Jun 2018***	*Dec 2017*
Gross NPL Ratio	**1.45**	1.41
Non-performing Loan (NPL) Cover	**107.30**	99.02
SOLVENCY	***Jun 2018***	*Dec 2017*
Debt to Equity Ratio	**8.19**	7.98
Asset to Equity Ratio	**9.19**	8.98
Interest Coverage Ratio	**1.98**	2.38*
CAPITAL ADEQUACY (%)	***Jun 2018***	*Dec 2017*
CET 1 Capital Ratio	**12.58**	13.47
Tier 1 Capital Ratio	**12.58**	13.47
Total Capital Adequacy Ratio	**13.32**	14.22

**for Jan-Jun 2017*

Economic Environment

US GDP expanded 4.1% in the second quarter mainly due to strong consumer, business and government spending. In June, Fed funds rate was raised by 25 bps to 1.75% to 2.00% in view of sustained labor market strength and inflation uptick to 2.2%. China's GDP growth slowed to 6.7% amid the government's deleveraging and on-going trade war with the US. Modest slowdown is foreseen as higher tariffs continue to threaten Chinese exports. Meanwhile, oil prices may rise to as much as $70 per barrel with the uncertainty in OPEC production increases.

Philippine GDP growth decelerated to 6.3% in the first half of 2018 as the 15% surge in imports offset the growth in public & private spending and investments. Merchandise trade deficit widened to US$15 billion (up 63%) in the first semester with the higher importation of capital goods, particularly telecommunication equipment and electrical machinery. Gross international reserves continued its seven-month downtrend to $77 billion (-5%) which could cover 7.4 months' worth of imports. Household spending grew by 6% with higher disposable incomes and steady growth in OF remittances (+4%). Inflation rate soared to a new high of 5.7% in July due to the increase in food and non-alcoholic beverages prices. With the P104 billion or 42% year-on-year growth in infrastructure spending, the government's budget deficit widened to P203 billion from P154 billion last year, although still below the targeted P482 billion (3% of GDP).

Weaker demand for the domestic currency led to a 6% depreciation of the Philippine peso to US$1.00: P53.52 by June-end.

Domestic liquidity grew 12% in June to P11.1 trillion. The BSP has hiked its policy rates three times to 4% (+100 bps) from May to August in efforts to rein in inflation pressures and contain capital outflows. It also reduced its reserve requirement ratio by another percentage point to 18% in June.

The UK/B & TB industry asset base expanded 14.1% to P15.5 trillion in June 2018. Loans-to-deposit ratio was up by 5pp to 72% as loans (up 21.6%) grew faster than deposits (14.3%). Gross NPL ratio dropped to 1.8%, while loan loss coverage improved to 120%. Major banks raised over P150 billion in fresh funds to support business expansion and meet regulatory capital requirements. The UK/B industry recorded total CAR ratios of 14.48% on a solo basis and 15.07% on a consolidated basis.

Results of Operation

Analysis of Consolidated Statements of Income (unaudited)
For the period ended June 30, 2018 and June 30, 2017

For the first semester, the Bank recorded a **net income** of P3.57 billion, 0.95% lower than the P3.60 billion recorded in the same period last year, as the increase in the operating expenses dampened revenue growth from core business lines. This resulted in a return on equity of 8.46% and return on assets of 0.96%.

Total interest income increased 26.00% to P15.72 billion from P12.48 billion. **Interest income from loans and receivables** was up 25.62% to P12.80 billion from P10.19 billion on the back of robust year-on-year loan portfolio expansion. **Interest income from trading and investments** was 36.20% higher at P2.59 billion from the larger securities portfolio and yield pick-up for the period. However, **interest income from due from BSP and other banks** decreased 13.80% to P336.17 million because of the drop in placements with the *Bangko Sentral ng Pilipinas* and correspondent banks.

Total interest expense amounted to P4.67 billion, P1.42 billion or 43.57% larger than last year from higher volume of deposits. **Interest expense on deposit liabilities** increased 47.50% to P4.45 billion arising from the annual deposit expansion and uptick in borrowing costs. Meanwhile, **interest expense on bills payable and other borrowings** dropped by P18.84 million or 8.20% to P210.88 million due to lower interbank borrowings.

Net Interest income rose 19.81% to P11.06 billion on the back of a strong growth in earning assets, as well as the uptick in yields. This led to an improvement in **net interest margin** to 3.16% from 3.07%.

Total **non-interest income** was recorded at P2.09 billion, P981.07 million or 31.98% lower than last year. **Trading and securities loss** amounted to (P194.36) million because of rising interest rates which affected both the dealership business and returns on tradable securities. **Foreign exchange gain** decreased to P75.70 million from P167.94 million because of volatility in the foreign exchange rate. **Income from assets acquired** of P224.60 million was 39.43% below last year's P370.82 million because of lower sales volume of foreclosed properties. **Miscellaneous income** of P783.99 million was 21.16% lower year-on-year due to the booking of one-time gain in the first semester of 2017.

Operating expenses (excluding provision for impairment and credit losses) rose 15.08% to P8.62 billion with the continued network expansion and the recognition of additional tax expenses related to the implementation of the government's Tax Reform Acceleration and Inclusion (TRAIN) program. **Provision for impairment and credit losses** fell by P350.17 million even as loans grew year-on-year. **Compensation and fringe benefits** increased 19.72% to P3.06 billion from the growth in human resource complement coupled with additional CBA-related costs. **Taxes and licenses** were up 14.51% to P1.36 billion mainly from higher documentary stamp tax. **Occupancy costs** and **depreciation & amortization** were up 14.16% and 7.89% to P1.07 billion and P646.77 million, respectively, as the Bank undertook additional capital outlay related to the business & network expansion. Likewise, **repairs and maintenance** were 20.28% higher at P59.85 million from the upgrade of various technology platform. **Insurance**, which includes PDIC premium payments, grew 18.02% to P805.72 million with the year-on-year increase in deposits. **Entertainment, amusement and recreation** increased 24.73% to P136.48 million from higher marketing- and selling-related expenses. **Miscellaneous expenses** grew 8.26% to P1.48 billion with incremental marketing-related and other operating costs. Consolidated **cost-to-income ratio** was reported at 66.57%, higher than the 60.91% recorded last year.

Financial Condition

Analysis of Consolidated Statement of Financial Condition
As of June 30, 2018 (unaudited) and December 31, 2017 (audited)

Assets totaled P768.44 billion, P16.99 billion higher than year-end 2017.

Cash and other cash items fell 25.37% to P9.47 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 P5.27 billion or 5.35%, as the Bank reduced its BSP placements and freed up reserves following the Monetary Board's reserve rate requirement cuts in March and June of this year. **Due from other banks** decreased 46.26% to P8.41 billion from the decline in deposits with correspondent banks. The Bank's **interbank loans receivable and securities purchased under resale agreements** also dropped by P15.09 billion or 80.45% to P3.67 billion as the Bank reduced its overnight placements with the BSP.

Total investment securities amounted to P153.05 billion, up P25.08 billion year-to-date from the increased holdings of **financial assets at amortized cost/ HTM** by P 64.82 billion or 99.28% to P130.10 billion. Meanwhile, **financial assets at fair value through profit & loss (FAVPL)** decreased P9.87 billion or 60.79% to P6.37 billion; and **financial assets at fair value through other comprehensive income (FVOCI)** dropped by P29.87 billion to P16.58 billion due to prior disposal and reclassification with the adoption of PFRS-9 standards. The Bank's securities portfolio accounted for 19.92% of consolidated resources, higher than the 17.03% at year-end.

Gross loan portfolio (inclusive of UDSCL) was at P477.06 billion, up 4.71% or P21.45 billion year-to-date driven by the sustained credit demand across all market segments. **Loans (net, inclusive of UDSCL)** stood at P469.45 billion. **Accrued interest receivable** amounted to P4.50 billion, up 20.89% due to higher volume of investments. **Investment in associates** saw a P75.14 million drop to P254.29 million due to adjustments on the contribution of the its affiliate.

Deferred tax assets grew by P737.70 million to P2.52 billion due to the recognition of DTA on additional allowance for credit losses arising from PFRS-9 adjustments. **Other assets** went up by P1.01 billion or 16.17% to P7.22 billion due to higher prepaid expenses.

Total deposits ended at P653.44 billion, underpinned by the P31.58-billion increase in low-cost deposits to P374.59 billion. Low-cost funding mix of 57.33% exceeded the 2017-end ratio of 54.01%.

Bills payable fell by P4.04 billion or 20.07% to P16.08 billion with the drop in in the Bank's foreign currency-denominated borrowings. **Manager's checks** declined 36.40% to P1.55 billion because of the slowdown in demand from branch customers. **Income tax payable** was at P531.01 million, a P168.97 million or 46.67% growth due to higher deferred tax assets on written-off accounts. **Accrued interest and other expenses** were 7.42% larger at P2.82 billion from the booking of accruals and payroll expenses. **Derivative liabilities** dropped to P248.24 million from P267.53 million because of lower volume of currency swaps during the period. **Other liabilities** increased by P3.28 billion to P9.00 billion due to higher accounts payable and additional reserves for contingent accounts

Total equity (including minority interest) ended at P83.60 billion, slightly lower than last year's P83.66 billion mainly from the P1.36 billion drop in **surplus** due to PFRS-9 adjustments and payment of cash dividends amounting to P2.23 billion or P0.83 / share. **Net unrealized loss on financial assets at FVOCI** improved to (P536.15) 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 (P93.51) million.

The Bank's Common Equity Tier 1 (CET 1/ Tier 1) ratio and total CAR were computed at 12.58% and 13.32%, respectively, well above the minimum regulatory requirement.

Total Comprehensive Income
For the period ended June 30, 2018 and June 30, 2017

The Bank recorded **total comprehensive income** of P3.13 billion during the first semester of the year, a P621.77 million drop from the P3.76 billion recorded last year mainly from the P817.66 million drag in net unrealized loss on FVOCI/AFS investments.

Key Performance Indicators

Profitability

China Bank recorded a net income of P3.57 billion which resulted in a ROE of 8.46% and ROA of 0.96%. Cost-to-income ratio was slightly higher at 65.57% from the 60.91% in the same period last year as the Bank continued its branch expansion program. Net interest margin was slightly higher at 3.16% from 3.07% due to the year-on-year improvement in yields and higher volume of earning assets.

Liquidity

The Bank's liquidity ratio (the ratio of liquid assets to total assets) was lower at 34.85% 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 while volume of loan portfolio grew.

Asset Quality

Tighter loan monitoring and remedial efforts enabled the Bank to maintain asset quality amid the loan expansion. Gross NPL ratio only increased by 4 bps to 1.45%, despite the year-to-date loan build-up. Nevertheless, consolidated NPL coverage ratio improved to 107.30% from 99.02% in December 2017 (180.84% for Parent bank).

Solvency Ratios

Debt-to-equity ratio was at 8.19 in June 2018 versus 7.98 in December 2017; asset-to-equity ratio was at 9.19 versus 8.98 at year-end. Interest coverage ratio for the period stood at 1.98 as against 2.38 for the first half of 2017.

Capitalization

China Bank's CET 1 / Tier 1 CAR and Total CAR ratios were registered at 12.58% and 13.32%, respectively. The Bank's capital is largely comprised of CET 1/ Tier 1 (core) capital.

Corporate Developments

The Bank successfully raised P10.25 billion through a public offering of peso-denominated Long Term Negotiable Certificates of Time Deposits (LTNCD), the first tranche of its planned P20 billion LTNCD offering. This was the largest LTNCD issuance in the banking industry so far for 2018 and the biggest in the Bank's history. The proceeds of the fund raising activity will be used to support China Bank's medium-term strategic initiatives and expansion programs.

During the period, China Bank received numerous distinctions in the field of corporate governance. The Bank achieved a score of 100 points and above in the ASEAN Corporate Governance Scorecard (ACGS) for 2017, making it the only bank among the top 10 Philippine publicly-listed companies within this score range. The ACGS assesses listed companies based on publicly-disclosed information and benchmarks their performance against international best practices in corporate governance. The Bank has consistently been in the country's top 50 listed companies since 2013.

At the 8th Asian Excellence Awards by the Hong Kong-based publication, Corporate Governance Asia, China Bank was again named as th5e *Best Investor Relations Company (Philippines)*, while SVP and Investor & Corporate Relations Group Head Alexander C. Escucha was awarded *Best Investor Relations Professional (Philippines)*.

In recognition of its excellent response to customer concerns, the Bank was conferred the *Pagtugon Award for Universal & Commercial Banks* by the BSP at the 2018 Awards Ceremony and Appreciation Lunch for Stakeholders. The *Pagtugon Award* was created in line with the BSP's advocacy of upholding consumer protection and is awarded to banks that promptly and consistently respond to the Financial Consumer Protection Department's referrals of consumer issues and have the least number of customer complaints with the BSP. The thrift banking subsidiary, China Bank Savings was also recognized as a finalist in the O*utstanding Partner Bank in Clean Note Policy Campaign*.

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 12% of the total consolidated resources.

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

(In Mn Pesos)	***Jan-Jun '18***	*Jan-Dec '17*	*Jan-Jun '17*
Net Income	38	45	26
Total Assets	895	785	600

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

(In Mn Pesos)	***Jan-Jun '18***	*Jan-Dec '17*	*Jan-Jun '17*
Net Income	15	6	20
Total Assets	51	39	42

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

(In Mn Pesos)	***Jan-Jun '18***	*Jan-Dec '17*	*Jan-Jun '17*
Net Income	228	502	206
Total Assets	90,414	87,178	87,540

- **China Bank Capital Corporation**

(In Mn Pesos)	***Jan-Jun '18***	*Jan-Dec '17*	*Jan-Jun '17*
Net Income	114	280	165
Total Assets	1,713	1,627	1,500