



August 14, 2019

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: ATTY. JOSEPH B. EVANGELISTA
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, 2019 filed with the Securities and Exchange Commission (SEC).

For your information and guidance.

Thank you.

Very truly yours,

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

CHINA BANKING CORPORATION

8745 Paseo de Roxas corner Villar Street, Makati City, Philippines
Tel. No. 885-5555 • Fax No. 815-3169 • www.chinabank.ph

COVER SHEET

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(Company's Full Name)

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

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|------------------|
| Patrick D. Cheng |
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(Contact Person)

| |
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| 885-5555 |
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(Company Telephone Number)

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(Fiscal Year)

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Month Day
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(Secondary License Type, If Applicable)

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

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(Amended Articles Number/Section)

| |
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| 1,920 |
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Total No. of Stockholders

| | |
|----------------------------|--|
| Total Amount of Borrowings | |
| | |

Domestic

Foreign

To be accomplished by SEC Personnel concerned

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SEC FORM 17-Q

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

1. For the quarter period ended June 30, 2019
2. Commission identification number 443
3. BIR Tax Identification No.. 000-444-210-000

CHINA BANKING CORPORATION

4. Exact name of issuer as specified in its charter

PHILIPPINES

5. Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code: (SEC Use Only)

CHINA BANK BUILDING 8745 PASEO DE ROXAS COR. VILLAR STS., MAKATI CITY 1226

7. Address of registrant's principal office Postal Code
8. Issuer's telephone number, including area code (02) 885-5555
9. Former name, former address and former fiscal year, if changed since last report NA
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of each Class | Number of shares of common stock Outstanding | Amount of debt outstanding |
|----------------------|---|-------------------------------|
| <u>COMMON</u> | <u>2,685,899,812</u> | |

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

Yes ☒ No ☐

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE

COMMON

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports)

Yes ☒ No ☐

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

Yes ☒ No ☐

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Attached are the following:

| | |
|-------------|---|
| Annex I: | Interim Consolidated Statements of Financial Position |
| Annex II: | Interim Consolidated Statements of Income |
| Annex III: | Interim Consolidated Statements of Comprehensive Income |
| Annex IV: | Interim Consolidated Statements of Changes in Equity |
| Annex V: | Interim Consolidated Statements of Cash Flows |
| Annex VI: | Aging of Loans and Receivables |
| Annex VII: | Profitability Report by Business Segment |
| Annex VIII: | Financial Soundness Indicators |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.


| | |
|-----------|-------------------------|
| Annex IX: | Management's Discussion |
|-----------|-------------------------|

PART II OTHER INFORMATION

There are no material disclosures that were not reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | |
|---|--|
| Issuer | <u>CHINA BANKING CORPORATION</u> |
| |  |
| Principal Financial/Accounting Officer/Controller | <u>PATRICK D. CHENG</u> |
| Signature and Title | <u>Chief Finance Officer</u> |
| Date..... | August 13, 2019 |

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, 2018.

The accounting policies adopted are consistent with those of the previous financial year except for the following amendment to PFRS which became effective as of January 1, 2019.

PFRS 16, Leases. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees - leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

Upon adoption of this standard, the Group recognized a right of use asset and lease liability for covered lease contracts.

- b. **Seasonality or Cyclicity of Interim Operations.** Changes in the Group's financial condition or operation were due more to external factors such as interest movements and cost of borrowings rather than seasonality or cyclical aspects.
- c. **Nature and amount of items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.** Changes in nature and amounts in the financial statements were due more to market-related factors inherent in the nature of the issuer's business operations and are not considered unusual. Below

are some significant changes as explained in the Management's Discussions of Financial Condition and Results of Operation:

| | June 30, 2019 | December 31, 2018 | Increase (Decrease) |
|---|--------------------------|--------------------------|--------------------------------|
| Assets | | | |
| Cash and Other Cash Items | 11,904,914 | 15,639,474 | (3,734,560) |
| Due from Other banks | 10,644,793 | 9,455,447 | 1,189,346 |
| Financial Assets at Fair Value through Profit or Loss | 10,681,752 | 7,596,261 | 3,085,491 |
| Financial Assets at Fair Value through Other Comprehensive Income | 12,591,019 | 10,101,527 | 2,489,492 |
| Accrued Interest Receivable | 6,267,523 | 5,697,182 | 570,342 |
| Investments in Associates | 601,749 | 335,092 | 266,657 |
| Bank Premises, Furniture, Fixtures and Equipment - net | 8,008,520 | 6,450,458 | 1,558,062 |
| Intangible Assets | 4,718,379 | 4,202,599 | 515,780 |
| Liabilities | | | |
| Income Tax Payable | 16,090 | 477,585 | (461,495) |
| Accrued Interest and Other Expenses | 4,540,546 | 3,842,525 | 698,021 |
| Derivative Liabilities | 1,348,328 | 455,150 | 893,179 |
| Other Liabilities | 10,017,455 | 7,681,646 | 2,335,808 |
| | June 30, 2019 | June 30, 2018 | Increase (Decrease) |
| Income | | | |
| Interest on Loans and Receivable | 17,480,240 | 12,799,942 | 4,680,298 |
| Interest on Trading and investments | 5,124,371 | 2,587,881 | 2,536,491 |
| Interest on Due from BSP and other banks | 502,330 | 336,174 | 166,156 |
| Trading and Securities Gain (Loss) | 885,709 | (194,361) | 1,080,070 |
| Service charges, fees and commissions | 1,549,323 | 1,196,361 | 352,962 |
| Foreign Exchange Gain (Loss) - net | (180,706) | 75,704 | (256,410) |
| Miscellaneous | 867,882 | 783,988 | 83,894 |
| Expense | | | |
| Interest on Deposit Liabilities | 10,296,615 | 4,454,789 | 5,841,826 |
| Bills payable and other borrowings | 1,067,222 | 210,877 | 856,345 |
| Taxes and licenses | 1,587,257 | 1,363,643 | 223,614 |
| Occupancy costs | 1,312,343 | 1,069,343 | 242,999 |
| Provision for impairment and credit losses | 337,963 | (25,767) | 363,730 |
| Insurance | 914,476 | 805,717 | 108,758 |
| Repairs and Maintenance | 75,524 | 59,850 | 15,674 |
| Entertainment, amusement and recreation | 189,416 | 136,476 | 52,939 |
| Miscellaneous | 1,958,455 | 1,481,837 | 476,619 |

- 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.** USD 150M Green Bond. On June 18, 2019, the Bank issued a \$150 million, seven-year bond to International Finance Corporation. The bond carries an interest margin of 120 basis points over 6-month LIBOR. Shortly thereafter, the Bank entered into a seven-year pay-fixed, receive-floating interest rate swap with the same principal terms to hedge the exposure to variable cash flow payments on the floating-rate bonds payable attributable to interest rate risk.
- 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 2, 2019, the stockholders approved the declaration of ₱0.88 per share cash dividends. Cash dividend was paid on May 31, 2019.

- 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.
- j. **Material Contingencies and Any Other Events.**
Capital Infusion to Manulife China Bank Life Assurance Corporation (MCBL). On February 22, 2019, the Bangko Sentral ng Pilipinas (BSP) approved the Bank's capital infusion of P40 million to Manulife China Bank Life Assurance Corporation (MCBL) to comply with the capitalization requirement of the Insurance Commission for insurance companies, which was paid on March 21, 2019.
- k. **Financial Risk Disclosure.** On April 3, 2019, the BOD affirmed the priority risk areas of the Bank considered in the 2019 ICAAP submission.

The Bank submitted its annually updated ICAAP document, in compliance with BSP requirements, on March 29, 2019. 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.

- l. **Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the period.**
Issuance of Peso Fixed Rate Bonds. On July 10, 2019, China Bank successfully raised P30 billion as investors supported its maiden issue of peso fixed rate bonds, which bears a fixed coupon rate of 5.70% per annum, payable monthly, and is due on January 2021. Six times oversubscribed, it was one of the largest corporate bond issuances on a single issuance in the market to date.
- m. **Material commitment for capital expenditures.** The Bank expects to incur capital expenditures related to the ongoing branch expansion plan and technology-related investments. Funding will be sourced internally.
- n. **Fair Value Measurement.** As of June 30, 2019 and December 31, 2018, 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, 2019 | | December 31, 2018 (Audited) | |
|------------------------------------|----------------|--------------|-----------------------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial Assets | | | | |
| Financial Assets at Amortized Cost | | | | |
| Government bonds | P131,214,548 | P132,804,281 | P117,260,018 | P108,886,906 |
| Private bonds | 57,914,076 | 58,303,391 | 55,277,018 | 54,077,408 |
| Loans and receivables | | | | |
| Corporate and commercial loans | 427,237,903 | 410,548,257 | 406,403,070 | 389,177,803 |
| Consumer loans | 85,802,137 | 95,702,477 | 85,688,187 | 85,222,099 |
| Trade-related loans | 11,920,630 | 11,960,560 | 13,662,914 | 13,283,538 |
| Others | 629,855 | 668,196 | 50,785 | 56,603 |
| Sales contracts receivable | 979,094 | 1,042,962 | 1,040,939 | 1,101,941 |

| | June 30, 2019 | December 31, 2018 (Audited) |
|---------------------|---------------|-----------------------------|
| Deposit liabilities | 320,358,982 | 314,564,041 |
| | | 321,343,811 |
| | | 299,666,264 |

As of June 30, 2019 and December 31, 2018, the fair value hierarchy of the Group's assets and liabilities are presented below:

| | June 30, 2019 | | | Total |
|---|---------------|------------|-------------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Recurring fair value measurements | | | | |
| Financial assets at FVPL | | | | |
| Held-for-trading | | | | |
| Government bonds | 1,627,745 | 1,455,204 | - | 3,082,949 |
| Treasury notes | - | 2,993,058 | - | 2,993,058 |
| Treasury bills | - | 719,687 | - | 719,687 |
| Private bonds | 1,436,624 | - | - | 1,436,624 |
| Quoted equity shares | 1,513,235 | - | - | 1,513,235 |
| Derivative assets | - | 936,200 | - | 936,200 |
| Financial Assets at FVOCI | - | - | - | - |
| Government bonds | 4,182,052 | 7,780,703 | - | 11,962,755 |
| Quoted private bonds | 1,352 | - | - | 1,352 |
| Unquoted equity shares | 18,365 | - | - | 18,365 |
| | 8,779,373 | 13,884,852 | - | 22,664,225 |
| Financial liabilities at FVPL | | | | |
| Derivative liabilities | - | 1,331,282 | - | 1,331,282 |
| | - | 1,331,282 | - | 1,331,282 |
| Fair values of assets carried at amortized cost/cost | | | | |
| Investment securities at amortized cost | | | | |
| Government bonds | 132,804,281 | - | - | 132,804,281 |
| Private bonds | 58,303,391 | - | - | 58,303,391 |
| Loans and receivables | | | | |
| Corporate and commercial loans | - | - | 410,548,257 | 410,548,257 |
| Consumer loans | - | - | 95,702,477 | 95,702,477 |
| Trade-related loans | - | - | 11,960,560 | 11,960,560 |
| Others | - | - | 668,196 | 668,196 |
| Sales contracts receivable | - | - | 1,042,962 | 1,042,962 |
| Investment properties | | | | |
| Land | - | - | 5,508,932 | 5,508,932 |
| Buildings and improvements | - | - | 2,375,651 | 2,375,651 |
| | 191,107,672 | - | 527,807,035 | 718,914,707 |
| Fair values of liabilities carried at amortized cost | | | | |
| Deposit liabilities | - | - | 314,564,041 | 314,564,041 |
| | - | - | 314,564,041 | 314,564,041 |

| | December 31, 2018 (Audited) | | | Total |
|--|-----------------------------|------------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Recurring fair value measurements | | | | |
| Financial assets at FVPL | | | | |
| Held-for-trading | | | | |
| Government bonds | P492,521 | P141,372 | P- | P633,893 |
| Treasury notes | - | 838,662 | - | 838,662 |
| Treasury bills | - | 1,214,170 | - | 1,214,170 |
| Private bonds | 3,189,063 | - | - | 3,189,063 |
| Quoted equity shares | 1,312,625 | - | - | 1,312,625 |
| Derivative assets | - | 407,848 | - | 407,848 |
| Financial assets at FVOCI | | | | |
| Government bonds | 4,859,716 | 5,107,673 | - | 9,967,389 |
| Quoted private bonds | 35,370 | - | - | 35,370 |
| Quoted equity shares | 80,403 | - | - | 80,403 |
| | P9,969,698 | P7,709,725 | P- | P17,679,423 |
| Financial liabilities at FVPL | | | | |
| Derivative liabilities | P- | P455,150 | - | P455,150 |
| | P- | P455,150 | - | P455,150 |

| | December 31, 2018 (Audited) | | | |
|---|-----------------------------|---------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fair values of assets carried at amortized cost | | | | |
| Investment securities at amortized cost | | | | |
| Government bonds | P108,886,906 | P— | | P108,886,906 |
| Private bonds | 54,077,408 | — | | 54,077,408 |
| Loans and receivables | | | | |
| Corporate and commercial loans | — | — | 389,177,803 | 389,177,803 |
| Consumer loans | — | — | 85,222,099 | 85,222,099 |
| Trade-related loans | — | — | 13,283,538 | 13,283,538 |
| Others | — | — | 56,603 | 56,603 |
| Sales contracts receivable | — | — | 1,101,941 | 1,101,941 |
| Investment properties | | | | |
| Land | — | — | 8,696,956 | 8,696,956 |
| Buildings and improvements | — | — | 1,371,972 | 1,371,972 |
| | P162,964,314 | P— | P498,910,912 | P661,875,227 |
| Fair values of liabilities carried at amortized cost | | | | |
| Deposit liabilities | P— | P— | P299,666,264 | P299,666,264 |
| | P— | P— | P299,666,264 | P299,666,264 |

- o. **Related Party Transactions.** Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Transactions with Retirement Plans

Income earned by the Group from managing the retirement plans amounted to P24.40 million, and P24.24 million for the six-month periods ended June 30, 2019 and 2018. 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, 2019 | December 31, 2018 (Audited) |
|---------------------------------|------------------|--------------------------------|
| Balance Sheet | | |
| Deposit in banks | P737,217 | P560,672 |
| Equity Investments | 1,498,200 | 1,479,097 |
| Total market value | 1,498,200 | 1,479,097 |
| Number of shares held | 54,579 | 54,579 |
| Six Months Ended June 30 | | |
| | 2019 | 2018 |
| Income Statement | | |
| Dividend income | P48,030 | P51,571 |
| Interest income | 15,114 | 7,446 |

Financial Assets at Fair Value through Other Comprehensive Income 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, 2019 | | | |
|---------------------------------|-----------------|---------------------|---|
| Category | Amount / Volume | Outstanding Balance | Terms and Conditions |
| Significant Investor | | | |
| Loans and receivables | | 2,347,650 | These are secured loans with interest rate of 5.13% and maturity of 5.12 years; collateral includes shares of stocks with fair value of ₱5.1 billion. |
| Issuances | — | | |
| Repayments | (4,418,850) | | |
| Deposit liabilities | | 1,230 | These are checking accounts with annual average rate of 0.13%. |
| Deposits | 857 | | |
| Withdrawals | — | | |
| Associates | | | |
| Deposit Liabilities | | 322,945 | These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%. |
| Deposit | 156,683 | | |
| Withdrawals | (29) | | |
| Key Management Personnel | | | |
| Loans | | 167 | 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 | (320) | | |
| Deposit Liabilities | | 24,009 | These are checking, savings and time deposit account with annual average interest rates ranging from 0.25% to 1.00% |
| Deposits | 91,412 | | |
| Withdrawals | (81,971) | | |
| Other Related Parties | | | |
| Deposit Liabilities | | 229,302 | These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%. |
| Deposit | 11,915,558 | | |
| Withdrawals | (11,800,193) | | |

| December 31, 2018 (Audited) | | | |
|-----------------------------|-----------------|---------------------|---|
| Category | Amount / Volume | Outstanding Balance | Terms and Conditions |
| Significant Investor | | | |
| Loans | | ₱6,766,500 | Partially secured Loans with interest rate of 2 - 5.12% and maturity of two to seven years. |
| Issuances | ₱86,125,000 | | |
| Repayments | (2,350,000) | | |
| Deposit Liabilities | | | |
| Deposit | 2,532,609 | 374 | These are checking accounts with annual average rate of 0.13%. |
| Withdrawals | (2,532,493) | | |
| Associates | | | |
| Deposit Liabilities | | 166,372 | These are savings accounts with annual average interest rates ranging from 0.25% to 1.00%. |
| Deposit | 487,691 | | |
| Withdrawals | (399,123) | | |
| Key Management Personnel | | | |
| Loans | | 488 | 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 | 388 | | |
| Repayments | (39,213) | | |
| Deposit Liabilities | | | |
| Deposit | 406,225 | 79,241 | These are checking, savings and time deposits with annual average interest rates ranging from 0.25% to 1.00%. |
| Withdrawals | (350,120) | | |
| Other Related Parties | | | |
| Deposit Liabilities | | 238,933 | These are checking and savings accounts with annual average interest rates ranging from 0.13% to 1.00%. |
| Deposit | 35,337,503 | | |
| Withdrawals | (35,165,054) | | |

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, 2019 and June 30, 2018 are presented below:

| | Significant Investor | | Associate | |
|------------------|----------------------|---------|-----------|------|
| | June 30 | | | |
| | 2019 | 2018 | 2019 | 2018 |
| Interest income | ₱28,172 | ₱10,804 | ₱— | ₱— |
| Interest expense | 1 | 1 | 371 | 55 |

| | Key Management Personnel | | Other Related Parties | |
|------------------|--------------------------|------|-----------------------|------|
| | June 30 | | | |
| | 2019 | 2018 | 2019 | 2018 |
| Interest income | P768 | P5 | P- | P- |
| Interest expense | 12 | 13 | 81 | 74 |

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, 2019 | December 31, 2018 | Nature, Terms and Conditions |
| Balance Sheet | | | |
| Accounts receivable | P2,860 | P1,242 | This pertains to various expenses advanced by CBC in behalf of CBSI |
| Security deposits | 2,270 | 2,270 | This pertains to the rental deposits with CBSI and CBCC for office space leased out to the Parent Company |
| Accounts payable | 7,903 | 4,858 | This pertains to various unpaid rental to CBSI |

| | Subsidiaries | | |
|-------------------------|----------------|---------------|--|
| | June 30, 2019 | June 30, 2018 | Nature, Terms and Conditions |
| Income Statement | | | |
| Miscellaneous income | P900 | P900 | 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 | 12,304 | 12,008 | 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 | 104,009 | 88,661 | This pertains to the computer and general banking services provided by CBC-PCCI to the Parent Company to support its reporting requirements |

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Annex I

(Amounts in thousands)

| | | June 2019 | December 2018 |
|---|---|-------------|---------------|
| | | Unaudited | Audited |
| ASSETS | | | |
| Cash and Other Cash Items | P | 11,904,914 | 15,639,474 |
| Due from Bangko Sentral ng Pilipinas | | 100,369,095 | 101,889,773 |
| Due from Other banks | | 10,644,793 | 9,455,447 |
| Interbank Loans Receivable and Securities Purchased under Resale Agreements | | 12,596,465 | 11,998,040 |
| Financial Assets at Fair Value through Profit or Loss | | 10,681,752 | 7,596,261 |
| Financial Assets at Fair Value through Other Comprehensive Income | | 12,591,019 | 10,101,527 |
| Investment Securities at Amortized Cost | | 189,128,623 | 172,537,036 |
| Loans and Receivables - net | | 525,590,524 | 505,804,955 |
| Accrued Interest Receivable | | 6,267,523 | 5,697,182 |
| Investments in Associates | | 601,749 | 335,092 |
| Bank Premises, Furniture, Fixtures and Equipment - net | | 8,008,520 | 6,450,458 |
| Investment Properties | | 5,092,150 | 4,789,602 |
| Deferred Tax Assets | | 2,674,093 | 2,514,889 |
| Intangible Assets | | 4,718,379 | 4,202,599 |
| Goodwill | | 839,748 | 839,748 |
| Other Assets | | 6,512,114 | 6,219,559 |
| | P | 908,221,462 | 866,071,640 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Deposit Liabilities | | | |
| Demand | | 169,529,593 | 161,239,669 |
| Savings | | 260,248,460 | 239,539,817 |
| Time | | 320,358,982 | 321,343,811 |
| | | 750,137,034 | 722,123,296 |
| Bills Payable | | 40,285,573 | 39,826,532 |
| Bonds Payable | | 7,686,000 | |
| Manager's Checks | | 2,604,908 | 2,577,175 |
| Income Tax Payable | | 16,090 | 477,585 |
| Accrued Interest and Other Expenses | | 4,540,546 | 3,842,525 |
| Derivative Liabilities | | 1,348,328 | 455,150 |
| Deferred Tax Liabilities | | 1,169,070 | 1,231,145 |
| Other Liabilities | | 10,017,455 | 7,681,646 |
| | | 817,805,005 | 778,215,054 |
| 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 | 26,858,998 |
| Capital paid in excess of par value | | 17,122,626 | 17,122,626 |
| Surplus Reserves | | 3,872,137 | 4,031,008 |
| Surplus | | 42,608,075 | 40,497,255 |
| Net Unrealized Gains (Losses) on Financial Assets at FVOCI | | (33,277) | (702,509) |
| Remeasurement Gain on Defined Benefit Asset | | (40,609) | 117,047 |
| Remeasurement on Life Insurance Reserve of Associate | | - | 19,154 |
| Cumulative Translation Adjustment | | 18,107 | (91,699) |
| | | 90,406,057 | 87,851,879 |
| Non-controlling Interest | | 10,400 | 4,708 |
| | | 90,416,456 | 87,856,586 |
| | P | 908,221,462 | 866,071,640 |

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in thousands)

| | June 2019 | December 2018 |
|-------------------------------------|--------------------|--------------------|
| | Unaudited | Audited |
| CONTINGENT ACCOUNTS | | |
| Unused commercial letters of credit | 18,446,169 | 20,978,009 |
| Outstanding guarantees Issued | 751,431 | 944,262 |
| Inward bills for collection | 3,743,338 | 2,563,604 |
| Outward bills for collection | 71,673 | 55,135 |
| IRS receivable | 26,468,760 | 11,366,980 |
| Spot exchange bought | 9,416,489 | 3,624,709 |
| Spot exchange sold | 8,443,802 | 3,247,995 |
| Forward exchange bought | 35,885,770 | 37,359,690 |
| Forward exchange sold | 27,890,303 | 24,678,551 |
| Trust department accounts | 147,854,195 | 133,806,226 |
| Credit card Lines | 10,022,298 | 12,568,703 |
| Late deposits/payments received | 494,368 | 495,347 |
| Deficiency claims receivable | 286,696 | 287,647 |
| Standby credit commitment | 3,793,264 | 3,149,787 |
| Others | 5,588 | 1,846 |
| | 293,574,145 | 255,128,491 |

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

Annex II

| | | For the Semester Ended June 30 | For the Semester Ended June 30 | For the Quarter Ended June 30 | For the Quarter Ended June 30 |
|---|----------|--------------------------------|--------------------------------|-------------------------------|-------------------------------|
| | | 2019 | 2018 | 2019 | 2018 |
| INTEREST INCOME | | | | | |
| Loans and receivable | P | 17,480,240 | 12,799,942 | 8,787,250 | 6,641,855 |
| Trading and investments | | 5,124,371 | 2,587,881 | 2,675,857 | 1,405,789 |
| Due from BSP and other banks | | 502,330 | 336,174 | 257,039 | 145,913 |
| | | 23,106,942 | 15,723,998 | 11,720,147 | 8,193,557 |
| INTEREST EXPENSES | | | | | |
| Deposit liabilities | | 10,296,615 | 4,454,789 | 5,308,711 | 2,300,907 |
| Bills payable and other borrowings | | 1,067,222 | 210,877 | 597,053 | 125,885 |
| | | 11,363,837 | 4,665,666 | 5,905,763 | 2,426,792 |
| NET INTEREST INCOME | | 11,743,105 | 11,058,332 | 5,814,384 | 5,766,765 |
| Trading and securities gain/(loss) | | 885,709 | (194,361) | 710,435 | 98,573 |
| Service charges, fees and commissions | | 1,549,323 | 1,196,361 | 780,155 | 620,565 |
| Foreign exchange gain- net | | (180,706) | 75,704 | (106,454) | (64,497) |
| Income from asset acquired | | 241,974 | 224,595 | 160,915 | 186,058 |
| Miscellaneous | | 867,882 | 783,988 | 524,724 | 393,681 |
| TOTAL OPERATING INCOME | | 15,107,287 | 13,144,618 | 7,884,159 | 7,001,144 |
| Compensation and fringe benefits | | 3,326,813 | 3,055,798 | 1,883,303 | 1,604,810 |
| Taxes and licenses | | 1,587,257 | 1,363,643 | 714,412 | 662,236 |
| Occupancy costs | | 1,312,343 | 1,069,343 | 680,710 | 591,821 |
| Depreciation and amortization | | 633,721 | 646,773 | 313,686 | 282,958 |
| Provision for impairment and credit losses | | 337,963 | (25,767) | 64,607 | (197,262) |
| Insurance | | 914,476 | 805,717 | 457,640 | 405,492 |
| Repairs and maintenance | | 75,524 | 59,850 | 38,327 | 25,952 |
| Entertainment, amusement and recreation | | 189,416 | 136,476 | 118,695 | 78,820 |
| Miscellaneous | | 1,958,455 | 1,481,837 | 990,433 | 726,327 |
| TOTAL OPERATING EXPENSES | | 10,335,967 | 8,593,669 | 5,261,813 | 4,181,152 |
| INCOME BEFORE INCOME TAX | | 4,771,320 | 4,550,949 | 2,622,345 | 2,819,991 |
| PROVISION FOR INCOME TAX | | 551,080 | 985,872 | 262,526 | 754,502 |
| NET INCOME | P | 4,220,240 | 3,565,077 | 2,359,819 | 2,065,489 |
| Attributable to: | | | | | |
| Equity holders of the parent | | 4,216,524 | 3,561,457 | 2,358,239 | 2,063,518 |
| Non-controlling Interest | | 3,716 | 3,620 | 1,580 | 1,972 |
| | P | 4,220,240 | 3,565,077 | 2,359,819 | 2,065,489 |
| Earnings Per Share | | | | | |
| a. Basic | | 1.57 | 1.33 | 0.88 | 0.77 |
| b. Diluted * | | 1.57 | 1.33 | 0.88 | 0.77 |
| Net Income | | 4,216,524 | 3,561,457 | 2,358,239 | 2,063,518 |
| Weighted Ave. Number of Common Shares Outstanding | | 2,685,900 | 2,685,750 | 2,685,900 | 2,685,750 |

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

CHINA BANKING CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Annex III

For the Quarters Ended June 2019 and 2018

(Amounts in thousands)

| | For the Semester Ended June 30 | | For the Quarter Ended June 30 | |
|---|--------------------------------|------------------|-------------------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net Income | 4,220,240 | 3,565,077 | 2,359,820 | 2,065,490 |
| Other Comprehensive Income (Loss): | | | | |
| <i>Items that recycle to profit or loss in subsequent periods:</i> | | | | |
| Net unrealized gain (loss) on fair value through profit or loss | | | | |
| Fair value gain(loss) for the year, net of tax | 595,349 | (374,863) | 170,178 | (264,066) |
| Gains taken to profit or loss | (85,665) | (15,458) | (73,281) | 2,832 |
| Share in Other Comprehensive Income of Associate: | | | | |
| Net Unrealized Gain on FVOCI | 161,778 | 14,271 | 161,778 | 14,271 |
| Share in Other Comprehensive Income of Subsidiaries: | | | | |
| Surplus Reserves | - | 2,451 | 195,085 | 1,187 |
| Cumulative translation adjustment | 109,896 | (54,779) | 18,429 | (61,271) |
| <i>Items that do not recycle to profit or loss in subsequent periods:</i> | | | | |
| Remeasurement gain on defined benefit asset or liability | (158,000) | (3,267) | (55,232) | (2,933) |
| Remeasurement loss on life insurance reserves | (19,154) | - | (19,154) | - |
| Other Comprehensive Income for the year | 604,205 | (431,646) | 397,805 | (309,981) |
| Total Comprehensive Income for the year | 4,824,445 | 3,133,431 | 2,757,627 | 1,755,509 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Parent Company | 4,818,753 | 3,129,715 | 2,755,886 | 1,754,293 |
| Non-controlling Interest | 5,692 | 3,715 | 1,739 | 1,216 |
| | 4,824,445 | 3,133,431 | 2,757,627 | 1,755,509 |

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

Annex IV

| | Capital Paid in | | 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 |
|---|-------------------|---------------------|------------------|-------------------|---|--|--|---|-------------------|-------------------|-------------------|
| | Capital Stock | Excess of Par Value | | | | | | | | | |
| Balance at December 31, 2018 | 26,858,998 | 17,122,626 | 4,031,008 | 40,497,256 | (702,509) | 117,047 | 19,154 | (91,699) | 87,851,880 | 4,708 | 87,856,589 |
| Total comprehensive income for the year | - | - | - | 4,216,524 | 669,233 | (157,656) | (19,154) | 109,806 | 4,818,753 | 5,692 | 4,824,444 |
| Retained Earnings, appropriated | - | - | (158,871) | 158,871 | - | - | - | - | 0 | - | 0 |
| Other adjustments | - | - | - | 99,016 | - | - | - | - | 99,016 | - | 99,016 |
| Cash Dividends - P0.88 per share | - | - | - | (2,363,592) | - | - | - | - | (2,363,592) | - | (2,363,592) |
| Balance at June 30, 2019 | 26,858,998 | 17,122,626 | 3,872,137 | 42,608,075 | (33,277) | (40,609) | - | 18,107 | 90,406,057 | 10,400 | 90,416,457 |
| 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 initial application of PFRS 9: | - | - | - | (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 | (145,768) | 283,763 | (12,221) | (38,698) | 82,652,708 | 4,736 | 82,657,445 |
| Total comprehensive income for the year | - | - | 2,451 | 3,561,457 | (390,382) | (3,267) | 14,271 | (54,815) | 3,129,715 | 3,715 | 3,133,430 |
| 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 | 952,652 | 39,003,645 | (536,150) | 280,496 | 2,050 | (93,513) | 83,590,805 | 8,451 | 83,599,256 |

CHINA BANKING CORPORATION
STATEMENTS OF CASH FLOWS
For the periods ended

Annex V

| | JUNE | | JUNE | |
|---|---------------|---------------------|--------------|---------------------|
| | 2019 | | 2018 | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Income before income tax | P | 4,771,320 | P | 4,550,949 |
| Adjustment to reconcile income before income tax to net cash provided operations: | | | | |
| Provision for probable losses | | 337,963 | | (25,767) |
| Depreciation and amortization | | 633,721 | | 646,773 |
| Trading Gain/Loss on FVOCI | | 669,233 | | (390,382) |
| Gain on sale of investment properties | | (241,974) | | (224,595) |
| Operating income before changes in operating assets and liabilities | | 6,170,262 | | 4,556,977 |
| Changes in operating assets and liabilities: | | | | |
| Decrease (increase) in the amounts of: | | | | |
| Financial assets at FVPL | | (3,085,491) | | 9,871,294 |
| Loans and receivables | | (20,123,532) | | (23,961,151) |
| Other assets | | (1,533,807) | | (1,674,470) |
| Increase (decrease) in the amounts of: | | | | |
| Deposit liabilities | | 28,013,738 | | 18,349,326 |
| Manager's checks | | 27,733 | | (888,516) |
| Accrued interest and other expenses | | 698,021 | | 194,851 |
| Other liabilities | | 3,228,987 | | 3,256,757 |
| Net cash provided by operations | | 13,395,912 | | 9,705,069 |
| Income taxes paid | | (1,233,854) | | (747,629) |
| Net cash provided by operating activities | | 12,162,058 | | 8,957,440 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Net additions to bank premises, furniture, fixtures and equipment | | (2,191,784) | | (564,073) |
| Proceeds from sale of investment properties | | 126,568 | | 197,102 |
| Adjustment of minority interest | | 1,976 | | 96 |
| Additional investment of an associate | | (40,000) | | - |
| Decrease (increase) in equity investments | | (226,657) | | 75,137 |
| Decrease (increase) in the amounts of: | | | | |
| AFS financial assets | | (2,489,492) | | 31,575,144 |
| HTM financial assets | | (16,591,588) | | (64,817,583) |
| Net cash provided by (used in) investing activities | | (21,410,976) | | (33,534,177) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Increase (decrease) in bills payable | | 459,042 | | (4,037,203) |
| Bonds Payable | | 7,686,000 | | - |
| Payments of cash dividend | | (2,363,592) | | (2,229,297) |
| Issuance of additional shares | | - | | 37,678 |
| Net cash provided by financing activities | | 5,781,450 | | (6,228,821) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | (3,467,468) | | (30,805,558) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | | |
| Cash and other cash items | | 15,639,474 | | 12,685,984 |
| Due from Bangko Sentral ng Pilipinas | | 101,889,773 | | 98,490,014 |
| Due from Other banks | | 9,455,447 | | 15,641,476 |
| Interbank loans receivable and securities purchased under resale agreements | | 11,998,040 | | 18,751,845 |
| | | 138,982,734 | | 145,569,320 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | | |
| Cash and other cash items | | 11,904,914 | | 9,467,010 |
| Due from Bangko Sentral ng Pilipinas | | 100,369,095 | | 93,225,010 |
| Due from Other banks | | 10,644,793 | | 8,405,043 |
| Interbank loans receivable and securities purchased under resale agreements | | 12,596,465 | | 3,666,700 |
| | P | 135,515,266 | P | 114,763,763 |
| RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES | | | | |
| Bills payable | | | | |
| Balance at beginning of year | | 39,826,532 | | 20,118,031 |
| Cash flows during the year | | | | |
| Proceeds | 194,359,911 | | 85,151,353 | |
| Settlement | (203,558,703) | (9,198,792) | (90,557,442) | (5,406,089) |
| Non-cash changes | | | | |
| Foreign exchange movement | (5,022,752) | | 1,368,887 | |
| Amortization of transaction cost | 14,680,585 | 9,657,834 | | 1,368,887 |
| Balance as of June 30 | | 40,285,573 | | 16,080,828 |

China Banking Corporation
Aging of Loans and Receivables
June 30, 2019

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 | 532,670,270 | 522,747,955 | 3,388,234 | 1,294,763 | 1,059,145 | 3,155,570 | 8,897,713 | 1,024,603 |
| Less: Allow for Probable Losses & Unamortized Discount | 7,079,746 | | | | | | | |
| Net Loans and Receivables | 525,590,524 | | | | | | | |
| Accounts Receivables | 2,452,430 | 1,723,108 | 10,655 | 52,159 | 20,278 | 320,459 | 403,551 | 325,771 |
| Less: Allowance for Probable Losses | 340,767 | | | | | | | |
| Net Accounts Receivables | 2,111,663 | | | | | | | |
| Accrued Interest Receivables | 6,562,284 | 6,562,284 | | | | | | |
| Less: Allowance for Probable Losses | 294,761 | | | | | | | |
| Net Accrued Interest Receivables | 6,267,523 | | | | | | | |

CHINA BANKING CORPORATION PROFITABILITY REPORT BY BUSINESS SEGMENT

Annex VII

Segment Report

China Bank's operating businesses are recognized and managed separately according to the nature of services provided and the markets served, with each segment representing a strategic business unit. The Bank's business segments are as follows:

- a. Lending Business - principally handles all the lending, trade finance and corollary banking products and services offered to corporate and institutional customers as well as selected middle market clients. It also handles home loans, contract-to-sell receivables auto loans and credit cards for individual and/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, 2019:



**PROFITABILITY REPORT BY BUSINESS SEGMENT
FOR THE PERIOD ENDING JUNE 30, 2019
CONSOLIDATED
(Amounts in thousands of Pesos)**

| | LENDING BUSINESS | RETAIL BANKING BUSINESS | FINANCIAL MARKETS | OTHER BUSINESS & SUPPORT UNITS | BANKWIDE |
|--|---------------------|----------------------------|----------------------|-----------------------------------|--------------------|
| Net interest income | 12,241,067 | (1,944,075) | 2,623,452 | (1,177,339) | 11,743,105 |
| Third Party Intersegment | (8,512,653) | 8,282,159 | (1,604,068) | 1,834,562 | - |
| Net Interest Income after Intersegment Transactions | 3,728,414 | 6,338,084 | 1,019,384 | 657,223 | 11,743,105 |
| Other Operating Income | 878,381 | 830,269 | 1,063,946 | 591,586 | 3,364,182 |
| Total Revenue | 4,606,795 | 7,168,353 | 2,083,330 | 1,248,809 | 15,107,287 |
| Other Operating expense | (1,102,994) | (3,919,364) | (579,808) | (4,733,801) | (10,335,967) |
| Income before income tax | 3,503,801 | 3,248,989 | 1,503,522 | (3,484,992) | 4,771,320 |
| Income tax provision | 117,577 | - | (575,700) | (92,957) | (551,080) |
| Net Income | 3,621,378 | 3,248,989 | 927,822 | (3,577,949) | 4,220,240 |
| Total Assets | 392,677,030 | 501,785,904 | 216,945,964 | (203,187,436) | 908,221,462 |
| Total Liabilities | 16,184,430 | 528,587,044 | 84,460,744 | 188,572,787 | 817,805,005 |
| Depreciation & Amortization | 26,957 | 229,200 | 26,646 | 350,918 | 633,721 |
| Provision for impairment and credit losses | 81,966 | 160,937 | 55,288 | 39,772 | 337,963 |
| Capital Expenditures | 7,914 | 95,062 | 3,487 | 85,879 | 192,342 |

Financial Soundness Indicators

| | | |
|---------------------------------|-------------------------------|-------------------------------|
| <i>PROFITABILITY (%)</i> | <u>Jan – June 2019</u> | <u>Jan – June 2018</u> |
| Return on Average Equity | 9.45 | 8.46 |
| Return on Average Assets | 0.95 | 0.96 |
| Cost to income ratio | 66 | 66 |
| Net Interest Margin | 3.20 | 3.61 |
| | | |
| <i>LIQUIDITY (%)</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| Liquid Assets to Total Assets | 38 | 38 |
| Loans to Deposit Ratio | 70 | 70 |
| | | |
| <i>ASSET QUALITY (%)</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| Gross NPL Ratio | 1.2 | 1.2 |
| Non-performing Loan (NPL) Cover | 148 | 167 |
| | | |
| <i>SOLVENCY</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| Debt to Equity Ratio | 9.0 | 8.9 |
| Asset to Equity Ratio | 10.0 | 9.9 |
| Interest Coverage Ratio | 1.4 | 2.0* |
| | | |
| <i>CAPITAL ADEQUACY (%)</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| CET 1 / Tier 1 Ratio | 12.85 | 12.16 |
| Total CAR | 13.75 | 13.09 |

*for Jan-June 2018

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 | - | $\frac{\text{Total Allowance for Impairment \& Credit Losses on Receivables from Customers plus Retained Earnings Appropriated for Gen. Loan Loss Provision}}{\text{Gross Non-Performing Loans}}$ |

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 | - | $\frac{\text{Total Qualifying Capital}}{\text{Total Risk Weighted Assets}}$ |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation (Including Subsidiaries)

Financial Highlights (Consolidated)

| <i>In Million Pesos</i> | <u>Jan – June 2019</u> | <u>Jan – Jun 2018</u> |
|-------------------------|-------------------------------|------------------------------|
| Gross Revenues | 26,471 | 17,810 |
| Gross Expenses | 22,251 | 14,245 |
| Net Income | 4,220 | 3,565 |

| <i>In Million Pesos</i> | <u>June 2019</u> | <u>Dec 2018</u> |
|-------------------------|-------------------------|------------------------|
| Total Resources | 908,221 | 866,072 |
| Loan Portfolio (Net) | 525,591 | 505,805 |
| Total Deposits | 750,137 | 722,123 |
| Equity | 90,416 | 87,857 |

Key Performance Indicators

| <i>PROFITABILITY (%)</i> | <u>Jan – June 2019</u> | <u>Jan – June 2018</u> |
|---------------------------------|-------------------------------|-------------------------------|
| Return on Average Equity | 9.45 | 8.46 |
| Return on Average Assets | 0.95 | 0.96 |
| Cost to income ratio | 66 | 66 |
| Net Interest Margin | 3.20 | 3.61 |
| | | |
| <i>LIQUIDITY (%)</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| Liquid Assets to Total Assets | 38 | 38 |
| Loans to Deposit Ratio | 70 | 70 |
| | | |
| <i>ASSET QUALITY (%)</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| Gross NPL Ratio | 1.2 | 1.2 |
| Non-performing Loan (NPL) Cover | 148 | 167 |
| | | |
| <i>SOLVENCY</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| Debt to Equity Ratio | 9.0 | 8.9 |
| Asset to Equity Ratio | 10.0 | 9.9 |
| Interest Coverage Ratio | 1.4 | 2.0* |
| | | |
| <i>CAPITAL ADEQUACY (%)</i> | <u>June 2019</u> | <u>Dec 2018</u> |
| CET 1 / Tier 1 Ratio | 12.85 | 12.16 |
| Total CAR | 13.75 | 13.09 |

*for Jan-June 2018

Economic Environment

The US economy grew by 2.1% in 2Q 2019, lower than 3.1% from the previous quarter and 2.5% from last year due to the contraction in exports and investments. Nevertheless, growth was supported by household consumption, which recorded its fastest growth since end-2017 as personal consumption expenditures index went up to 2.3%. Despite better-than-expected 2Q results, the US Fed cut policy rates by 25 bps in July in response to weak business spending and muted foreign economic data. Meanwhile, China recorded its slowest GDP growth (+6.2%) in 27 years with the escalation of trade tensions with US and a general slowdown in global demand.

On the domestic front, the Philippine GDP grew 5.5% in the second quarter of 2019 below last year's 6.2% in view of the delayed budget approval which slowed down fiscal spending. Capital formation contracted by 8.5%, a reversal from the double-digit growth posted in 2018, while infrastructure disbursements dropped by 11.7% year-on-year. Net exports grew by 33.1% as imports slowed. Balance of Payments recorded a deficit in June 2019 of US\$ 404 million, significantly below last year's \$1.18 billion. The Philippine peso appreciated by 4% to US\$ 1.00: P 51.36 year-on-year in end-June. Gross international reserves remained adequate at US\$ 85.8 billion or 7.5 months' worth of imports.

Domestic liquidity increased 6.4% in June to P11.8 trillion, while household consumption sustained its growth (+5.6%). July inflation of 2.4% was within the 2% to 4% target range, bringing the year-to-date average inflation to 3.3%. BSP slashed policy rates by 25 bps each in May and in August to 4.25% and embarked on a three-stage reduction in reserve requirement to 16% to lower borrowing costs. For the rest of 2019, the BSP may continue easing policy rates to spur economic activity amid moderate GDP growth and softening inflation.

The combined assets of the UK/B & TB industry expanded 9.9% year-on-year to P16.8 trillion in May. Loans-to-deposit ratio inched up to 75% as loan portfolio growth (+11.4%) outpaced that of deposits (+6.2%). Gross NPL ratio went up to 2.1%, while loan loss coverage went down to 93%. The UKB industry remained well-capitalized with total CAR ratios of 15.06% (solo) and 15.78% (consolidated) in March 2019, which were above the regulatory minimum.

Results of Operation

Analysis of Consolidated Statements of Income (unaudited) For the period ended June 30, 2019 and June 30, 2018

China Bank reported a net income of P4.2 billion in the first half of 2019, equivalent to 18.4% growth compared to the same period last year. This income performance translates to a 9.45% return on equity and 0.95% return on assets.

Total interest income increased 47.0% to P23.1 billion from P15.7 billion. **Interest income from loans and receivables** was up 36.6% to P17.5 billion from P12.8 billion on the back of robust year-on-year loan portfolio expansion. **Interest income from trading and investments** climbed 98.0% to P5.1 billion from the build-up in securities holdings. **Interest income from due from BSP and other banks** likewise increased 49.4% to P502.3 million because of the growth in placements with correspondent banks.

Total interest expense amounted to P11.4 billion, P6.7 billion larger than last year due to the growth in deposits and other borrowings. **Interest expense on deposit liabilities** increased by P5.8 billion to P10.3 billion because of deposit expansion and uptick in funding cost. **Interest expense on bills payable and other borrowings** increased by P856.3 million to P1.1 billion due to volume-related growth including the Green bond issuance to the International Finance Corporation.

Despite the P684.8 million or 6.2% improvement in **net interest income**, consolidated **net interest margin** dropped to 3.20% from 3.61% because of higher cost of funds.

Provision for impairment and credit losses totaled P338.0 million, P363.7 million higher year-on-year on the back of sustained loan build-up.

Total **non-interest income** rose 61.3% to P3.4 billion as **trading and securities gain** rebounded by P1.1 billion to P885.7 million due to favorable market conditions which benefited the dealership business. **Service charges, fees, and commissions** increased 29.5% to P1.5 billion from the upswing in transactional fees. Also, **income from assets acquired** was 7.7% higher at P242.0 million because of higher sales of foreclosed properties. Meanwhile, **foreign exchange loss** amounted to (P180.7) million from P75.7 million gain because of the month-to-month movement in the Peso-Dollar exchange rate. **Miscellaneous income** totaled P867.9 million up 10.7% year-on-year from P784.0 million due to higher trust fees and income share from an affiliate.

Operating expenses (excluding provision for impairment and credit losses) increased 16.0% to P10.0 billion from the year-on-year expansion in distribution network and employee base. **Compensation and fringe benefits** increased 8.9% to P3.3 billion from the increase in manpower complement. **Occupancy costs** were up 22.7% to P1.3 billion, as the Bank undertook additional capital outlays related to the business & network expansion. Likewise, **repairs and maintenance** were 26.2% higher at P75.5 million from various technology platform upgrades & developments. **Taxes and licenses** were up 16.4% to P1.6 billion mainly from higher gross receipts and documentary stamp taxes. **Insurance**, which includes PDIC premium payments, grew 13.5% to P914.5 million with the year-on-year increase in deposits. **Entertainment, amusement and recreation** increased 38.8% to P189.4 million from larger marketing- and selling-related expenses. **Miscellaneous expenses** increased 32.2% to P2.0 billion from incremental marketing-related and other operating costs.

Consolidated **cost-to-income ratio** remained steady at 66%.

Financial Condition

Analysis of Consolidated Statement of Financial Condition As of June 30, 2019 (unaudited) and December 31, 2018 (audited)

Assets totaled P908.2 billion, 4.9% higher than year-end 2018 and P139.8 billion or 18.2% higher from the same period last year.

Cash and other cash items fell 23.9% to P11.9 billion due to the leveling-off of cash-in-vault from its usual year-end build-up. **Due from other banks** increased 12.6% to P10.6 billion from the increase in deposits with correspondent banks.

Investment securities amounted to P212.4 billion, up by 11.7% from P190.2 billion. The annual build-up in securities volume raised the portfolio of **financial assets at fair value through profit & loss (FVPL)** by P3.1 billion or 40.6% to P10.7 billion and **financial assets at fair value through other comprehensive income (FVOCI)** by P2.5 billion or 24.6% to P12.6 billion. **Investment securities at amortized cost** likewise climbed P16.6 billion to P189.1 billion due to larger volume of fixed income assets. The Bank's securities portfolio accounted for 23% of consolidated resources, higher than the 22% recorded at year-end.

The Bank's liquidity ratio was steady at 38% level.

Gross loan portfolio was at P532.8 billion, up 11.7% or P55.8 billion year-on-year with the sustained credit demand across all market segments. **Net Loans** stood at P525.6 billion.

Accrued interest receivable increased by 10.0% to P6.3 billion from P5.7 billion because of the growth in interbank loans and tradable securities. **Investments in associates** increased by P266.7 million to P601.7 million because of the infusion of additional capital to the Bank's affiliate, Manulife China Bank Life Assurance Corporation (MCBLife). **Bank premises, furniture, fixture, and equipment** grew by P1.6 billion or 24.2% to P8.0 billion due to PFRS-16 related adjustments. **Investment Properties** were up 6.3% to P5.1 billion representing foreclosed properties during the period. **Deferred Tax Asset** grew by P159.20 million to P2.7 billion due to the recognition of DTA on additional allowance for credit losses arising from PFRS-9 adjustments. **Intangible Assets** increased by 12.3% to P4.7 billion from the cost of software licenses.

On the liabilities side, **total deposits** were recorded at P750.1 billion, of which CASA (demand and savings deposits) amounted to P429.8 billion. CASA ratio was sustained at 57%. During the period, the Bank also booked **bonds payable** worth P7.7 billion representing the issuance of seven-year Green Bond to the International Finance Corporation (IFC) for the funding of environment-friendly & sustainable projects. **Income tax payable** was at P16.1 million, P461.5 million lower due to lower regular corporate income tax payable for the year. **Accrued interest and other expenses** were 18.2% larger at P4.5 billion from the setup of accruals and payroll expenses. **Derivative liabilities** increased 196.2% to P1.3 billion due to higher currency swaps volume. **Other liabilities** increased by P2.3 billion to P10.0 billion due to PFRS-16 related adjustments.

Total equity (including minority interest) reached to P90.4 billion, slightly higher than last year's P87.9 billion mainly from the P2.1 billion increase in **surplus**. **Net unrealized loss on financial assets at FVOCI** improved 95.3% to (P33.3) million from (P702.5) million in December arising from the mark-to-market revaluation of the Bank's unsold securities. Meanwhile, **cumulative translation adjustment** improved by P110.0 million to P18.1 million due to the exchange rate differences arising from the conversion of income and expenses related to foreign currency-denominated positions to base currency. **Remeasurement gain on defined benefit asset** saw a P157.7 million drop to (P40.6) million from higher retirement payouts from subsidiaries.

The Bank's Common Equity Tier 1 (CET 1/ Tier 1) ratio and total CAR were computed at 12.85% and 13.75%, respectively.

Total Comprehensive Income

For the period ended June 30, 2019 and June 30, 2018

The Bank recorded **total comprehensive income** of P4.8 billion during the first semester of the year, a 54.0% or P1.7 billion increase from the P3.1 billion recorded last year mainly from net income uptick and P900 million increase in net unrealized gain on FVPL.

Key Performance Indicators

Profitability

CHIB's net income of P4.2 billion resulted in a 9.45% ROE and 0.95% ROA given improved operating income. Cost-to-income ratio was steady at 66%. Net interest margin was at 3.20%, slightly lower year-on-year from higher cost of funds.

Liquidity

The Bank's liquidity ratio (the ratio of liquid assets to total assets) remained steady at 38%.

Asset Quality

Gross NPL ratio improved to 1.2% due to sustained observance of sound credit practices. Consolidated NPL cover was at 148%, lower than 167% recorded in Dec 2018. NPL cover for the Parent Bank was at 254% as of June 2019.

Solvency Ratios

Debt-to-equity and asset-to-equity ratios for the first semester was recorded at 9.0 and 10.0, respectively. Interest coverage ratio for the period was at 1.4.

Capitalization

China Bank's CET 1 / Tier 1 CAR and Total CAR ratios were registered at 12.85% and 13.75%, respectively. The Bank's capital is largely comprised of CET 1/ Tier 1 (core) capital.

Corporate Developments

On July 10, China Bank successfully raised P30 billion worth of funds in its maiden issue of Peso fixed rate bonds due in 2021. Six times oversubscribed, the China Bank bond has attracted 7,645 investors and is considered one of the biggest corporate issuances in a single issue to date.

In June, the Bank also issued its first green bond to International Finance Corporation (IFC) worth US\$150 million to help finance environmentally-beneficial projects.

The Bank was also cited by the BSP as *Best in Corporate Governance Disclosure and Transparency Award* and was conferred the *Pagtugon Award for Universal and Commercial Banks* for the Bank's adherence to global best practices in corporate governance and customer responsiveness. China Bank was also given a Four-Arrow recognition by the Institute of Corporate Directors for achieving a score range of 110 to 119 points out a possible high score of 130 points in the ASEAN Corporate Governance Scorecard. Notably, China Bank was the only bank among the six publicly-listed companies with the same achievement.

The Bank's investment banking arm, China Bank Capital, received the *Oil and Gas Deal of the Year* from The Asset for the P6-billion term loan facility for Atlantic Gulf and Pacific Company. China Bank's Easy Tax Filing & Payment Solution, a cash management service that allows corporate clients to file and pay real property taxes electronically, was awarded the *Most Innovative Public Sector System* at The Asset's Triple A Digital Awards. PhilHealth also recognized the Bank as an *Outstanding Accredited Collecting Agent* for an exemplary service in terms of its remittances, reportorial submissions, and customer support.

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 11% of the total consolidated resources.

▪ China Bank Insurance Brokers, Inc.

| (In Mn Pesos) | Jan-June '19 | Jan-Dec '18 | Jan-June '18 |
|---------------|--------------|-------------|--------------|
| Net Income | 40 | 57 | 38 |
| Total Assets | 536 | 459 | 895 |

▪ CBC Properties & Computer Center, Inc.

| (In Mn Pesos) | Jan-June '19 | Jan-Dec '18 | Jan-June '18 |
|---------------|--------------|-------------|--------------|
| Net Income | 16 | 15 | 15 |
| Total Assets | 68 | 65 | 51 |

▪ China Bank Savings, Inc. (CBS)

| (In Mn Pesos) | Jan-June '19 | Jan-Dec '18 | Jan-June '18 |
|---------------|--------------|-------------|--------------|
| Net Income | 180 | 370 | 230 |
| Total Assets | 97,678 | 95,780 | 90,264 |

▪ China Bank Capital Corporation

| (In Mn Pesos) | Jan-June '19 | Jan-Dec '18 | Jan-June '18 |
|---------------|--------------|-------------|--------------|
| Net Income | 102 | 368 | 114 |
| Total Assets | 2,102 | 1,986 | 1,713 |