

2016 ANNUAL REPORT

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CTBC BANK

CTBC Bank Co., Ltd.

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Spokesperson

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Acting Spokesperson

Name: Ya-Ling Chiu
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Acting Spokesperson

Name: Roger Kao
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Stock Transfer Agency

Name: Corporate Trust Operation and Service
Department, CTBC Bank Co., Ltd.
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Notarization CPA of Last Few Years

Names: Jeff Chen, Dannie Lee
Accounting Firm: KPMG Certified Public Accountants
Address: 68F., No. 7, Sec. 5, Xinyi Rd., Xinyi Dist., Taipei
City 110, Taiwan (R.O.C.)
Tel: +886-2-8101-6666
Website: <http://www.kpmg.com.tw>

Credit Rating Institutions

Taiwan Ratings Corp.
Address: 49F., No. 7, Sec. 5, Xinyi Rd., Xinyi Dist.,
Taipei City 110, Taiwan (R.O.C.)
Tel: +886-2-8722-5800
Website: <http://www.taiwanratings.com.tw>

Standard & Poor's Ratings Services

Address: Unit 1, 69F., International Commerce
Centre, 1 Austin Road West, Kowloon, Hong Kong
Tel: +852-2533-3500
Website: <http://www.standardandpoors.com>

Fitch Australia Pty Ltd, Taiwan Branch

Address: Suite 1306, 13F., No. 205, Dunhua N. Rd.,
Taipei City 105, Taiwan (R.O.C.)
Tel: +886-2-8175-7600
Website: <http://fitchratings.com.tw/zh/>

Moody's Investors Service Hong Kong Limited

Address: 24/F, One Pacific Place, 88 Queensway,
Admiralty, Hong Kong
Tel: +852-3758-1300
Website: <http://www.moody.com>

Overseas Exchange for Trading of Company Securities

Singapore Exchange (SGX)
Website: <http://www.sgx.com>

For the contact information of our headquarters and various branches in Taiwan and overseas, please refer to page 37

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I. Letter to our shareholders

Dear Shareholders,

In 2016, despite the slowing of Taiwan's overall economic momentum, CTBC Bank Co., Ltd. (hereinafter CTBC Bank) still achieved outstanding results. An industry leader in Taiwan, CTBC Bank has been honored with awards from a variety of domestic and international industry organizations. Through our self-driven growth and acquisition of The Tokyo Star Bank, Ltd., CTBC Bank rocketed into the top 50 banks in Asia by asset size.

2016 Business Strategy Implementation Results

In 2016, CTBC Bank reported an industry-leading NT\$87.9 billion of net revenue, NT\$28.9 billion of pre-tax income, and NT\$23.1 billion of after-tax income on a consolidated basis, while consolidated pre-tax ROE reached 11.89%.

An industry trend-setter, CTBC Bank continues to offer pioneering financial products and services to our customers. By combining big data with financial innovation, we launched digital branches equipped with the state-of-the-art technologies including an interactive wall, VIP facial recognition, ATM Cardless withdrawal service via finger vein identification, video teller machines (VTM), and video conference financial advising. We also established the CTBC Bank Blockchain Lab, which brings together local industry leaders and research teams to actively develop blockchain technology. Through a standardized proposal and implementation process, the Lab can rapidly develop the potential and value of the blockchain to provide customers with better services. In response to digital financial trends, CTBC Bank has partnered with LINE Pay to launch the CTBC LINE Pay Card, the first credit card in Taiwan that can be applied for through social media. We have also allied with local E-Commerce platform, Yahoo Taiwan, to introduce the CTBC Yahoo Card expanding our co-branded card offerings and targeting younger, internet savvy customers to more effectively penetrate the e-commerce market.

CTBC Bank added new departments to better respond to digital trends, keep our edge in an era of financial innovation, and seek innovative breakthroughs in our traditional operations. In early 2016, CTBC Bank established the Taiwan E-banking Division. Responsible for e-channel strategies, it is customer-experience centered and employs innovative technologies. It enhances operational efficiency, strives to achieve thorough understanding of customers, and optimizes the omni-channel service process to create a digital banking experience that is more real-time, personalized, and uniform. Additionally, in August 2016, we established the New Business Development Division responsible for payment strategies, developing data application plans, planning mobile payment services, promoting inter-industry cooperation, and establishing strategic partnerships. To scope with the increasingly strict regulatory requirements for compliance, in January 2017, CTBC Bank

established the Compliance Division separating from the Legal Affair Division to manage the compliance risk of the bank. Under the Compliance Division, CTBC set up a unit especially responsible for ensuring compliance with the anti-money laundering and anti-terrorist financing rules.

CTBC Bank has been recognized for our business achievements by domestic and international industry organizations and publications. Not only did *FinanceAsia* name CTBC “Best Bank in Taiwan”, the magazine also honored us with its 20th Anniversary Platinum Award. For our institutional banking services, CTBC Bank was named “Best Commodities Derivatives House, Taiwan” by *The Asset* for the 7th time and “Best Trade Finance Bank in Taiwan” by *Global Trade Review* for the sixth time. We were also awarded “Best Private Banking Services overall in Taiwan” by *Euromoney* for the 13th year running and “Best Retail Bank in Taiwan” by *The Asian Banker* for the 11th time.

In terms of risk management, CTBC Bank continued rigorous implementation of asset quality and capital adequacy controls. In 2016, our consolidated NPL Ratio and Coverage Ratio were 0.63% and 219% respectively, which represent good asset quality. Our BIS Ratio of 14.00% shows that our capital structure is also sound. Standard & Poor’s asserted CTBC Bank has good profitability and diverse sources of revenue. Furthermore, the agency found that among its competitors in the banking sector, CTBC Bank maintains a strong and stable market position. Considering the Bank’s strong liquidity and capital level, in September 2016, Standard & Poor’s increased our long term credit rating from A- to A.

Latest Credit Ratings and Evaluation Dates

| Type of Rating | Rating Agency | Credit Rating Level | | Outlook | Effective Date |
|----------------|-------------------|---------------------|------------|----------|----------------|
| | | Long Term | Short Term | | |
| Global | Standard & Poor’s | A | A-1 | Stable | 2016.09.26 |
| | Moody’s | A2 | Prime-1 | Stable | 2016.12.09 |
| | Fitch | A | F1 | Negative | 2016.09.21 |
| National | Taiwan Ratings | twAA+ | twA-1+ | Stable | 2016.09.26 |
| | Fitch | AA+(tw) | F1+(tw) | Negative | 2016.09.21 |

Impact of the Competitive, Regulatory, and Overall Business Environments

Continued weakness in global trade and investment was evident in 2016. US economic growth slowed, the Eurozone economic growth rate was lower than the previous year, while Japan’s economy continued its sluggish recovery. Structural reforms in China’s economy resulted in slowed growth. As international commodity prices remain low, ASEAN’s major economies have yet to see

an upturn. The Brexit vote, US election, and expected Fed interest rate hikes have intensified financial market volatility. Countries continued monetary easing while some also utilized fiscal policy to stimulate the economy. Together, these measures supported the global economy as it gradually crawled out of the depths. Benefitting from a lower base of comparison, Taiwan's export growth halted its fall and began to climb. Taiwan's economic growth rate moved into positive territory, exceeding 1% over the year. The Central Bank of the Republic of China put an end to the rate cut cycle in the third quarter. Because of the limited economic improvement and increased turbulence in international financial markets, the banking sector remains cautious.

2017 Business Plan Outline and Future Development Strategy

Looking to 2017, CTBC Bank's core growth strategy comprises gaining an in-depth understanding of core customer groups, focusing on our strengths, and optimizing the customer experience. By providing an integrated, competitive cross-border product platform, strengthening digital products and services, and establishing a robust and flexible operating platform, efficient compliance procedure, and integrated, real-time information technology, we can provide clients with an enhanced banking experience. CTBC bank will pursue strong growth momentum, while taking capital profitability and volatility into account to raise capital efficiency.

Business plans and goals are discussed in detail below:

1. Grow existing operations

In regards to Institutional Banking in the Taiwan region, CTBC Bank has established a differentiated business model and will continue to increase our market penetration and cross sell opportunities in overseas market. We will strengthen our penetration into industries with potential to maintain our leading position in the domestic market. In our Consumer Banking and Unsecured Lending, CTBC Bank will establish an integrated digital loan application platform to provide customers with a consistent, real-time digital experience that complies with all relevant regulations. As for Wealth Management, we will continue to hone our investment advisory capabilities. Through strengthening the customer portfolio management system and providing abundant, diversified investment products, we can offer our wealth management clients both return on investment and strong risk management to expand our core customer base and to strengthen the relationships. In terms of credit card and payment services, CTBC Bank will turn our focus to our core consumer segments. By setting up strategic partnerships with online merchants and social media platforms, CTBC Bank can expand our customer base and launch more convenient mobile payment options to differentiate us from the competition and improve customer loyalty.

2. Accelerate growth in overseas markets

In greater China, CTBC Bank will consolidate our current position and accelerate growth of our local customer base. We will expand our scope of capital market operations and interbank

cooperation. To harness the growth of China's consumer finance market, CTBC will enter into a joint venture with local strategic partners to establish a consumer finance company. In Southeast Asia, CTBC Bank will accelerate growth of core customer groups in each country. With Singapore serving as our regional financial hub, the Bank will take advantage of structural financing opportunities in the region. In North America, we will continue to grow our Commercial and Industrial loans and expand among both local customers and the Asian community. In Japan, we will focus on the cross-border commercial banking sector and financial planning services for both retired clients and young working professionals. CTBC Bank will continue to expand our overseas private banking product offerings and investment advisory services. We will provide Taiwan's small and medium sized enterprises with tailor-made products for their specific industry to meet their unique needs.

On a foundation of sound business principles, CTBC Bank will achieve continued success through diversified sources of profit and sound asset quality with the goal of becoming Asia's best regional bank.

Chairman:

A handwritten signature in black ink, appearing to be 'Deuy' or similar, written in a cursive style.

II. Company Profile

A. Company Overview

1. Date of Establishment: March 14, 1966

2. History of the Bank

Established in 1966, CTBC Bank Co., Ltd. has been through three major stages of development. It started out as China Securities Investment Corporation and was later changed into China Investment and Trust Corporation. In 1992, it was converted to a commercial bank with business scopes covering deposits, loans, guarantees, foreign exchange services, offshore banking unit (OBU), trust business, credit cards, securities, bonds, derivatives, e-banking, and the national lottery agent business. Since May 17, 2002, it has become one subsidiary of CTBC Financial Holding Co., Ltd.

To maximize operational scope, CTBC Bank merged with Grand Commercial Bank in December 2003, acquired the Fengshan Credit Cooperative in July 2004 and successfully bid to purchase Enterprise Bank of Hualien in May 2007. To make the group more effective, CTBC Bank formally merged with the Chinatrust Bills Finance Corporation on April 26, 2008. The transfer of 100% of The Tokyo Star Bank Ltd. shares was completed in June 2014 and CTBC Bank officially became the bank's sole shareholder. In October 2015, CTBC Bank, in a first for the banking industry, received approval from the competent authorities to operate within the insurance sector. On November 30, 2015, CTBC Bank merged with CTBC Insurance Brokers, with CTBC Bank, the surviving company, to continue providing services to CTBC Insurance Brokers' clients.

Based on our business principles of “Integrity” and “Caring”, CTBC Bank is proud to have offered many innovative services, including the first bank in Taiwan to issue credit cards, the first to set up a customer service center, and the first to install ATMs in convenience stores, and etc. With the commitment to achieving excellence and innovation, we continue to lead in the financial industry. As of the end of 2016, consolidated asset size reached NT\$3.52 trillion, ranking the largest among privately-owned bank in Taiwan, and one of top 50 banks in Asia.

To date, CTBC Bank has a total of 150 branches in Taiwan and 108 overseas outlets located in the US, Canada, Japan, Indonesia, the Philippines, India, Thailand, Vietnam, Malaysia, Hong Kong, Singapore, China, Myanmar, and Australia. CTBC has the most extensive international network among Taiwanese financial institutions.

Looking ahead, CTBC Bank will continue to uphold its brand spirit of “We are family”, corporate mission of “Protect and Build, and its brand values of "Caring, Professional, and Trustworthy" as we strive to strengthen corporate governance, fulfill corporate social responsibility, and to create values for customers, employees, shareholders, and society as a whole. We aim to become “Taiwan Champion, Asia Leader”- a leading brand with the best governance and the most trusted financial institution by customers and shareholders.

3. Awards

Domestic Awards

- *Reader's Digest* Trusted Brand Awards: Gold Awards for “Banking”, “Wealth Management”, and “Credit Cards”.
- *Wealth Magazine* Wealth Management Survey 2016: Domestic Bank for Best Wealth Management, Best Service, Best Financial Planning Team, Most Popular Domestic Bank, and Most Potential Domestic Bank.
- *Business Next Magazine* Business Innovation Awards 2016: Best Domestic Bank Client Communication- Jury Award, Gold Award, and Silver Award; Best Domestic Bank Omni-Channel Client Experience- Gold Award; Best Organizational Innovation- Gold Award; Best Integrated Communications and Marketing- Silver Award; and Best Business Model- Bronze Award
- *30 Magazine* Young Generation Brand Survey 2016: First Place for Most Often Used Credit Card Brand, Ideal Credit Card Brand, and Ideal Banking Brand.
- *Business Today* Wealth Management Banking Awards 2016: Best Wealth Management Bank and Best Service
- Institute for Information Industry's Brand and Service Industry Technological Innovation Survey 2016: Best Banking Brand
- *Wealth Magazine* Taiwan Financial Awards 2016- Consumer Finance Brand and CSR Awards: Best Online Banking– Gold Award; Best Domestic Bank Image– Quality Award; Best Bank Service– Quality Award; Best Banking Products– Quality Award; Best Financial Technology Banking Award– Quality Award
- Sports Administration, Ministry of Education: Gold medal for 2016 Sports Activist Awards– Sponsorship Category and the Long-Term Sponsorship Award
- Industrial Development Bureau, MOEA Top 20 International Brands 2016
- *Business Today* 9th Business Professional Brand Survey: First place in the Banking Category

International Awards

- *Global Finance*
Best Bank in Taiwan
Best Trade Finance Bank in Taiwan
Best Investment Bank in Taiwan

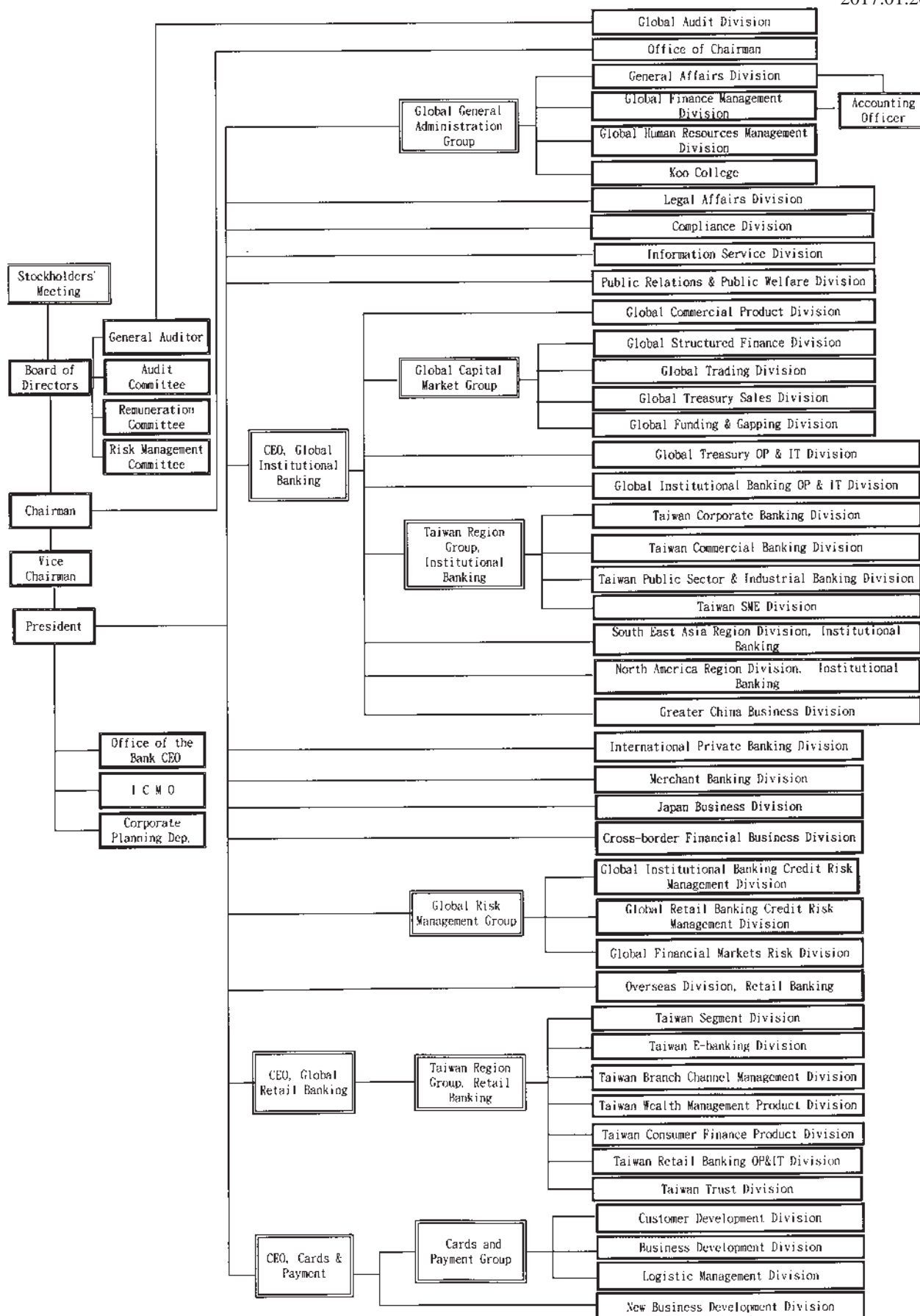
- Best Sub-Custodian Bank in Taiwan
- Best Corporate/Institutional Digital Banks in Taiwan
- *The Banker*
 - Best Leveraged Finance, Asia-Pacific
 - #164 of Top 1000 World Banks 2016
- *The Banker & PWM*
 - Best Private Bank in Taiwan
- *Euromoney*
 - Best Private Banking Services overall in Taiwan
 - Best Net-worth-specific services in Taiwan
 - Best Asset Management in Taiwan
 - Best Investment Banking Capabilities in Taiwan
 - Best Commercial Banking Capabilities in Taiwan
 - Best SRI/Social Impact Investing in Taiwan
 - Best Equity Finance in Taiwan
- *FinanceAsia*
 - The Platinum Awards Best Domestic Bank, Taiwan
 - The Platinum Awards Best Domestic Private Bank, Taiwan
 - Best Bank in Taiwan
 - Best Private Bank in Taiwan
- *IDC Financial Insights*
 - Asia/Pacific Leader in Risk Management
 - Asia/Pacific Leader in Customer Experience
- *Retail Banker International*
 - Excellence in Social Media– Customer Relations and Brand Engagement
 - Innovation in Service Delivery– ATM
- *CEPI (Cards & Electronic Payment International)*
 - Best Digital Wallet Initiative
 - Best Data Analytics Program
- *The Asian Banker*
 - Best CEO in Taiwan- Chairman, Chao Chin Tung
 - Best Managed Bank in Taiwan
 - Mortgage and Home Loans Product of the Year
 - The Achievement in Credit Risk Management Award
 - Best Retail Bank in Taiwan
 - Best Transaction Bank in Taiwan
 - Best Cash Management Bank in Taiwan
 - Best Trade Finance Bank in Taiwan
 - Best FX Bank in Taiwan
 - The Sub-Custodian Bank of the Year, Taiwan
 - Credit Card Product of the Year, Taiwan

- *The Asset*
 - Best LBO in Asia
 - Best Social-Media Banking Experience
 - Best ATM Experience
 - Data Analytics Project of the Year
 - Best Trade Finance Bank in Taiwan
 - Best Risk Management Bank in Taiwan
 - Best Domestic Custodian Bank in Taiwan
 - Best Wealth Manager, Taiwan
 - Derivatives House of the Year, Taiwan
 - Best Loan House in Taiwan
- *AsaiRisk*
 - House of the Year
- *IFR Asia*
 - Taiwan Loan House
- *Timetric*
 - Best Tech Implementation– Back Office
- *Asiamoney*
 - Best Domestic Private Bank in Taiwan
- *Global Trade Review*
 - Best Trade Finance Bank in Taiwan
- *Asian Banking & Finance*
 - Taiwan Domestic Foreign Exchange Bank of the Year
- *Brand Finance*
 - #83 of Top 500 Banking Brands
- *World Branding Forum*
 - Brand of the Year– Banking category

B. The Organization

1. CTBC Chart

2017.01.20



2. Directors and supervisors

Apr. 28, 2017

| Title | Name | Date of Assignment | Office Term | Significant Experience | Education |
|---------------|------------------|--------------------|-------------|---|--|
| Chairman | Chao-Chin Tung | Dec 8, 2016 | 3 | Director, CTBC Financial Holding Co., Ltd. Chairman, CTBC Bank Corp. (USA) Director, The Tokyo Star Bank, Ltd. Director, CTBC Life Insurance Co., Ltd. Chairman, CTBC Venture Capital Co., Ltd. Chairman, CTBC Asset Management Co., Ltd. | Master in Materials Science, University of Rochester, New York, USA |
| Vice Chairman | Ming-Shieh Li | | | Director, China Guangfa Bank Co., Ltd. Chairman, Citibank Taiwan Ltd | Department of Economics, National Taiwan University |
| Director | Wen-Long Yen | | | Chairman, CTBC Financial Holding Co., Ltd. Chairman, Kainan University | Department of Economics, Soochow University |
| Director | Thomas K.S. Chen | | | Director, CTBC Financial Holding Co., Ltd. Chairman, CTBC Investments Trust Co., Ltd. Chairman, CTBC Asset Management Co., Ltd. Director, Taipei Financial Center Corporation Chairman, Overseas Investment & Development Corp. Chairman, CTBC Bank Corp. (USA) Chief Secretary, CTBC Financial Holding Co., Ltd. | Department of Public Finance and Taxation, National Chengchi University |
| Director | H. Steve Hsieh | | | Chairman, Taiwan Lottery Corporation Independent Director LITE-ON IT Co., Ltd. Secretary General, Executive Yuan | Ph.D. in Biochemical Nutrition, University of Wisconsin, U.S.A. |
| Director | Su-Kuo Huang | Mar 28, 2017 | 3 | Chairman, Taiwan Life Insurance Co., Ltd. Director, Taiwan Life Insurance Co., Ltd. Chairman, CTBC Securities Co., Ltd. | MBA of Commerce University of Japan |
| Director | Paul T.C. Liang | Dec 8, 2016 | 3 | Director, Taiwan Life Insurance Co., Ltd. Chairman, TLG Capital Co., Ltd. Director, CTBC Financial Holding Co., Ltd. Director, CTBC Life Insurance Co., Ltd. President, PT Bank CTBC Indonesia | Department of International Trade, National Chengchi University |
| Director | Chun-Te Chiang | | | Chairman, ISTR Corporation Director, Long Chen Paper Co., Ltd. Independent Director, Feng Sheng Technology Co., Ltd. | Bachelor of Commerce, University of the Witwatersrand, Johannesburg South Africa |
| Director | Yen-Pao Chen | | | Director, CTBC Securities Co., Ltd. Director, CTBC Financial Management College Professor, Department of Accounting, Soochow University Director, CTBC Financial Holding Co., Ltd. | Ph.D. of Management Finance, University of George Washington, U.S.A. |

| Title | Name | Date of Assignment | Office Term | Significant Experience | Education |
|----------------------|---------------|--------------------|-------------|--|--|
| Independent Director | Chung-Yu Wang | Dec 8, 2016 | 3 | Independent Director of CTBC Financial Holding Co., Ltd. Chairman, China Steel Corporation Independent Director, Chunghwa Telecom Co., Ltd. Legislator, Taiwan | Honorary Ph. D., Chung Yuan Christian University |
| Independent Director | Wen-Chih Lee | | | Independent Director of CTBC Financial Holding Co., Ltd. Professor, Department of Wealth and Taxation Management, National Kaohsiung University of Applied Sciences Independent Director, Bank of Kaohsiung Director, Graduate Institute of Finance, Economics, and Business Decisions, National Kaohsiung University of Applied Sciences | Ph. D., Accounting Department, College of Management, National Taiwan University |
| Independent Director | Jie-Haun Lee | | | Independent Director of CTBC Financial Holding Co., Ltd. Professor, Finance Department, National Chengchi University National Chengchi University EMBA Executive Officer Director of Central Deposit Insurance Co., Ltd. | Ph.D.in Finance, Louisiana State University, U.S.A. |

Note : All Directors and Independent Directors are legal representatives of CTBC Financial Holding Co., Ltd. which owns 13,112,573,478 shares of common stocks and 100% of ownership.

3. Significant Shareholders of Legal Entities & Top 10 shareholders or shareholders owning over 10%

Apr. 28, 2017

| Institutional Shareholder | Shareholders of Major Institutional Shareholders |
|----------------------------------|---|
| CTBC Financial Holding Co., Ltd. | <ol style="list-style-type: none"> 1. Yi Kao Investment Co., Ltd. (2.89%) 2. Mega International Commercial Bank Co., Ltd. Acting as Custodian for the Investment Account of Morgan Stanley Formosa Holdings (Cayman) Limited (2.60%) 3. Cathay Life Insurance Co., Ltd. (2.58%) 4. China Life Insurance Co., Ltd. (2.22%) 5. Government of Singapore (1.70%) 6. Chuan Wei Investment Co., Ltd. (1.61%) 7. CTBC Bank Trust Account for CTBC Financial Holding Employee Welfare Savings Committee (1.56%) 8. Bank of Taiwan Co., Ltd. (1.55%) 9. Vanguard Emerging Markets Stock Index Fund, A Series Of Vanguard International Equity Index Funds (1.55%) 10. Jeffrey L.S. Koo (1.43%) |

4. Major Managers

April 1, 2017

| Name | Title | Education | Significant Experience |
|-----------------|---|--|--|
| James Chen | President & CEO, Global Institutional Banking | MBA, The City University of New York, USA | Director of CTBC Bank Co., Ltd. |
| Albert Lee | Senior Executive Vice President | Master of Comparative Law, University of Illinois at Urbana-Champaign, USA | Chairman of Threadneedle Investments Hong Kong |
| Larry Hsu | Senior Executive Vice President | Bachelor of Business Administration, National Taiwan University | EVP of CTBC Bank Co., Ltd. |
| Openmind Yeh | Executive Vice President | Bachelor of Economics, Tunghai University | SVP of CTBC Bank Co., Ltd. |
| Amy HC Lin | Executive Vice President | Bachelor of Banking, National Chengchi University | SVP of CTBC Bank Co., Ltd. |
| Frank Shih | Executive Vice President | MBA, University of Texas at Austin, USA | SVP of CTBC Bank Co., Ltd. |
| I Cheng Liu | Senior Executive Vice President | MBA, University of Pennsylvania, USA | President of Barclays Bank PLC. |
| Noor Menai | Executive Vice President | MBA, University of Rochester, USA | CEO of Charles Schwab Bank |
| Tony Yang | Executive Vice President | MIBA, United States International University, USA | SVP of CTBC Bank Co., Ltd. |
| Boshan Hsu | Senior Vice President | MBA, Indiana University Bloomington, USA | VP of CTBC Bank Co., Ltd. |
| James Y.G. Chen | Senior Executive Vice President | Master of Political Economy, Nankai University, Nankai University, China | President of Chang Hwa Bank |
| Charles Chen | Senior Vice President | Bachelor of Economics, National Chung Hsing University | VP of CTBC Bank Co., Ltd. |
| Jerry Shaw | Senior Vice President | Bachelor of Business Administration, Tamkang University | VP of CTBC Bank Co., Ltd. |

| Name | Title | Education | Significant Experience |
|---------------|---------------------------------|---|----------------------------|
| Matthew Liaw | Executive Vice President | MBA, University of Wisconsin at Madison, USA | SVP of CTBC Bank Co., Ltd. |
| Jack CP Wang | Executive Vice President | MBA, The University of Western Ontario, Canada | Vice President of Citibank |
| Eric Hsin | Executive Vice President | Executive MS in Finance, The City University of New York, USA | SVP of CTBC Bank Co., Ltd. |
| Morris Kao | Senior Vice President | Bachelor of Accounting, Fu Jen Catholic University | VP of CTBC Bank Co., Ltd. |
| Weitzu Chao | Senior Vice President | Master of Statistics, National Chengchi University | VP of CTBC Bank Co., Ltd. |
| Jason Chen | Executive Vice President | Bachelor of Business Administration, Feng Chia University | SVP of CTBC Bank Co., Ltd. |
| Max Lin | Executive Vice President | MBA, University of Illinois at Urbana-Champaign, USA | Director of Deutsche Bank |
| Cliff Shen | Executive Vice President | Bachelor of Business Administration, National Cheng kung University | SVP of CTBC Bank Co., Ltd. |
| Shirley Yang | Senior Vice President | Master of Arts in Advertising, Michigan State University, USA | VP of CTBC Bank Co., Ltd. |
| Amy Yang | Executive Vice President | EMBA, National Taiwan University | SVP of CTBC Bank Co., Ltd. |
| John Yang | Senior Vice President | MBA, University of Texas at Arlington, USA | VP of CTBC Bank Co., Ltd. |
| Alex Chen | Executive Vice President | Bachelor of Economics, Chinese Culture University | SVP of CTBC Bank Co., Ltd. |
| Peter Hsiao | Senior Vice President | Master of Business Administration, National Taiwan University | VP of CTBC Bank Co., Ltd. |
| Retinna Sung | Senior Vice President | Bachelor of Law, National Chung Hsing University | VP of CTBC Bank Co., Ltd. |
| Li Juan | Senior Vice President | MBA, Syracuse University, USA | VP of CTBC Bank Co., Ltd. |
| Jeffrey Hsieh | Senior Vice President | Master of Agricultural Economics, National Taiwan University | VP of CTBC Bank Co., Ltd. |
| Vivian Ho | Senior Vice President | EMBA, National Sun Yat-sen University | VP of CTBC Bank Co., Ltd. |
| Eric Tsai | Executive Vice President | EMBA, National Chengchi University | SVP of CTBC Bank Co., Ltd. |
| Anderson Chen | Senior Vice President | Bachelor of Business Administration, Soochow University | VP of CTBC Bank Co., Ltd. |
| Frank Hsu | Senior Vice President | Master of International Business, National Chengchi University | VP of CTBC Bank Co., Ltd. |
| C.C. Huang | Executive Vice President | MBA, Indiana University at Bloomington, USA | EVP of ABN AMRO Bank |
| Friedman Wang | Executive Vice President | MIBA, National Taiwan University | SVP of CTBC Bank Co., Ltd. |
| Mingjohn Lee | Executive Vice President | MBA, New York University, USA | SVP of CTBC Bank Co., Ltd. |
| Roger Kao | Senior Executive Vice President | Master of Science in Broadcast Journalism, Boston University, USA | EVP of CTBC Bank Co., Ltd. |
| Ys Lin | Senior Vice President | Bachelor of Mass Communication, Tamkang University | VP of CTBC Bank Co., Ltd. |
| Steve Peng | Senior Vice President | Bachelor of Cooperative Economics, Feng Chia University | VP of CTBC Bank Co., Ltd. |

| Name | Title | Education | Significant Experience |
|----------------|---------------------------------|---|---|
| Richie Chen | Senior Vice President | Secretarial Science, Tamsui Institute of Business Administration | VP of CTBC Bank Co., Ltd. |
| CC Hong | Executive Vice President | International Trade, Chihlee College of Business | SVP of CTBC Bank Co., Ltd. |
| Derek Lo | Executive Vice President | MBA, Madonna University, USA | SVP of CTBC Bank Co., Ltd. |
| Jonathan Hsieh | Senior Vice President | Master of Economics, National Chung Hsing University | VP of CTBC Bank Co., Ltd. |
| Aaron King | Senior Executive Vice President | Master of Law, Georgetown University, USA | EVP of CTBC Bank Co., Ltd. |
| Alex Lu | Senior Vice President | Master of Laws, Harvard University, USA | VP of CTBC Bank Co., Ltd. |
| William Chu | Executive Vice President | Bachelor of Marine Transportation, National Chiao Tung University | SVP of CTBC Bank Co., Ltd. |
| Yaling Chiu | Executive Vice President | MBA, Minnesota-Twin Cities University, USA | SVP of CTBC Bank Co., Ltd. |
| Evan Chang | Executive Vice President | Bachelor of Accounting, Tunghai University | SVP of CTBC Bank Co., Ltd. |
| Sting Yang | Senior Vice President | Bachelor of Accounting, Fu Jen Catholic University | VP of CTBC Bank Co., Ltd. |
| Chita Chen | Vice President | Master of Commerce, University of Sydney, Australia | Manager of CTBC Bank Co., Ltd. |
| Eddie Lee | Vice President | MBA, New York Institute of Technology, USA | Manager of CTBC Bank Co., Ltd. |
| Changhung Chen | Vice President | Bachelor of International Business, Feng Chia University | Manager of CTBC Bank Co., Ltd. |
| Arthur Wang | Senior Vice President | MBA, University of Wisconsin-Madison, USA | VP of CTBC Bank Co., Ltd. |
| Amy Fong | Senior Vice President | Master of Science in Management, Clemson University, USA | VP of CTBC Bank Co., Ltd. |
| Huanan Yang | Vice President | EMBA, National Taiwan University | Manager of CTBC Bank Co., Ltd. |
| Terresa Tu | Senior Vice President | Associate of Movie Production, Shih Hsin School of Journalism | VP of CTBC Bank Co., Ltd. |
| James Yu | Senior Vice President | Master of Economics, National Chung Hsing University | VP of CTBC Bank Co., Ltd. |
| Eric Chu | Senior Vice President | MBA, Chung Yuan Christian University | VP of CTBC Bank Co., Ltd. |
| Wisely Liu | Senior Vice President | EMBA, National Taiwan University | VP of CTBC Bank Co., Ltd. |
| Pauline Kao | Senior Vice President | MBA, University of Pennsylvania, USA | Compliance Senior Manager of American Express Company |
| Eric Kw Wu | Senior Vice President | EMBA, National Taiwan University | VP of CTBC Bank Co., Ltd. |
| Brian Wu | Vice President | Bachelor of Business Administration, National Chengchi University | Manager of CTBC Bank Co., Ltd. |
| Norman Sung | Vice President | Bachelor of International Business, Chung Yuan Christian University | Manager of CTBC Bank Co., Ltd. |
| Bach Chen | Vice President | Bachelor of mechanical engineering, National Taiwan University | Manager of CTBC Bank Co., Ltd. |
| Daphne Chang | Vice President | Master of Arts in Economics, University of Michigan-Ann Arbor, USA | Manager of CTBC Bank Co., Ltd. |

III. Business Overview

A. Business Performance

1. Scope of Business

(1) Institutional Banking

a. Commercial Banking

Providing customers with comprehensive, specialized, and cross-border financial services, including loans, trade financing, cash management, corporate trust, proxy services, and offshore private banking services, such as investment and financial planning.

b. Capital Markets

Providing tailored solutions to meet clients' financial needs. These services include syndicated lending, structured finance, and financial advisory services. Offering a wide range of foreign exchange and derivative products to meet clients' hedging and financing needs as well as specializing in structured product design and proprietary trading.

(2) Retail Banking

a. Wealth Management

Providing target customer groups with financial planning, asset allocation planning and advisory services, as well as acquisition of a variety of financial products.

b. Secured Lending

Providing individuals with a variety of residential mortgage services (including home mortgages, refinancing, installment loans, policy-based loans, and financial planning mortgages) and offering repurchase agreements to targeted corporate customers.

(3) Payment Services:

a. Credit Cards and Payment Services

- Providing issuing and acquiring services for credit cards, stored value cards, and debit cards.
- Developing platforms for digital wallets, third-party payments, bill payments, and cross-border transactions.

b. Unsecured Lending

Extending various unsecured personal loans (including unsecured term loans and revolving loans).

(4) Business in Japan

a. Institutional Banking

Providing customers with comprehensive, specialized, and cross-border financial services, including loans, trade financing, and cash management services. Providing customized solutions to meet clients' financial needs. Our financial services consist of a wide range of product choices, including bilateral and syndicated lending, structured finance, foreign exchange, and derivative products to meet clients' business needs.

b. Retail Banking

Providing customers with current deposits, time deposits, loans, as well as domestic and cross-border remittance services. In addition, our retail banking provides target customer groups with financial planning and advisory services as well as mutual funds and insurance products.

Revenue Breakdown (Note 1)

Unit: NT\$ million

| Revenue Source | Amount | % |
|-------------------------|--------|---------|
| Institutional Banking | 32,178 | 36.60% |
| Retail Banking (Note 2) | 37,630 | 42.80% |
| Japan business | 14,821 | 16.86% |
| Other | 3,290 | 3.74% |
| Total | 87,919 | 100.00% |

Note 1: Bank consolidated basis

Note 2: Including payment services business

2. Business Discussion

(1) Institutional Banking

CTBC Bank's institutional banking business continues to be the leader in banking in Taiwan. Faced with the challenges of financial liberalization and globalization, we have been growing our business in Taiwan by optimizing our core business and growing our emerging businesses. Furthermore, we have been leveraging our global networks to accelerate the growth of international business by expanding business scale of overseas markets and connecting cross-border opportunities to boost synergy.

We keep our thumb on the market pulse as we lead the financial industry in creative, specialized financial products and have become an indispensable partner to our customers. Each of our main products has been honored with international awards, such as the "Best Foreign Exchange Bank in Taiwan", "Best Treasury & Cash Management Bank in Taiwan", "Best Trade Finance Bank in Taiwan", "Best Loan House in Taiwan", and "Best Custodian Bank in Taiwan". The management direction and achievements of our primary products are elaborated below:

a. Cash Management

With strong sales and product capabilities, CTBC Bank's market share of total deposits continued to increase, reaching 6% in 2016. The growth of our deposit volume led the market, especially in foreign currency deposits, which boasted a market share of 7.8% and was ranked No.2 among banks in Taiwan in December 2016.

In 2016, CTBC Bank continued to expand our product development roadmap on the global market. Our Shanghai and Guangzhou branches in China joined local city

clearing systems, allowing us to offer Intra-city Payment Service in the two cities. In Hong Kong, we introduced our virtual account collection service to facilitate client account receivables reconciliation. In Singapore, we introduced the Standing Instruction Service, so customer can schedule payments more efficiently.

We were also devoted to innovative cross-border solutions. We were the first bank to participate in SWIFT's newly-launched Global Payment Innovative (GPI) Initiatives in Taiwan. We also provided secured cross-border collection solution to serve retailers, ecommerce providers, and educational institutions who have customers in China.

b. Trade Finance Business

CTBC Bank has been one of the leading financiers of trade activities in Taiwan for many years and has been named Best Trade Finance Bank in Taiwan by many magazines.

2016 was a challenging year for the trade finance market due to the low commodity prices and slow economic growth. The trade activities in Taiwan market declined by 19.1%; nevertheless, CTBC Bank's trade finance business maintained its ranking of number one among private banks in terms of volume of LC issuance and negotiation. In the factoring business, CTBC Bank was ranked number one for the second consecutive year.

CTBC Bank continues to deliver excellent performance in a wide range of operations. We have not only focused on enhancing services and innovative products, but also on providing clients global solutions with overseas platforms. CTBC Bank's overseas platforms offer cross-border financing solutions that enable clients to allocate funds more efficiently and obtain financing without boundaries. In 2017, CTBC Bank will strive to conduct more overseas businesses using our global platforms to increase trade finance volume and market shares.

c. Custody / Corporate Trust Business

Corporate trust business continued to grow in 2016. CTBC Bank asset under custody (AUC) from all segments achieved NT\$2.47 trillion (US\$82 billion) at the end of 2016. The revenue of Corporate Trust business showed solid and consistent performance in 2016, reaching a record high of NT\$1.05 billion (US\$35 million). In terms of asset size, CTBC Bank was still ranked number one in the Transfer Agent and Employee Benefit business.

d. Syndicated Loans

CTBC Bank maintains the leading position as loan syndication powerhouse in the Taiwan and Asia loan markets. CTBC Bank is equipped with superior structuring capabilities, able to provide clients with innovative debt structures and comprehensive alternative financing products. Equipped with such capabilities, CTBC Bank is in a leading position in Taiwan's LBO (Leverage Buyout) market and lists as Top 20 book runners in IFR's APAC league table. CTBC Bank leads Taiwan banks in LBO/acquisition financing, aviation, shipping financing, and securitization. In addition,

we have expanded our syndicated loan business beyond our home market and have become a significant regional player for many years ahead of our domestic competitors. In 2016, CTBC Bank successfully arranged the most M&A financing deals compared to its counterparts in Taiwan. We also remained the foremost bank in Taiwan's syndicated loan market with leading agent bank's services.

e. Fixed Income Underwriting

CTBC Bank bond house offers an alternative funding source to our clients. We are dedicated to developing innovative products and customized solutions for our clients. Our Hong Kong and Taiwan DCM (Debt Capital Markets) teams work closely with clients and provide instant and global wide services. Looking back to 2016, we made a great achievement and took a big step forward. This year, CTBC Bank demonstrated a remarkable and pioneering position by acting as the first underwriter of Asian Development Bank. As the sole bond issuer for Nan Shan Life, the largest corporate bond offering in the past five years, CTBC Bank demonstrated the profound ability to issue perpetual bond and the ability to place the bonds with specific government agencies. Our accomplishments in overseas deals in 2016 included bond issuance of Nan Shan Life, ADB, Societe Generale, Morgan Stanley, KDB, Deutsche Bank, and The Goldman Sachs Group.

f. Treasury & Derivatives

CTBC Bank provides a wide range of financial market products, including bonds, exchange-traded and over-the-counter derivatives, foreign exchange, and money market instruments, to meet the investment demands and hedging needs of institutional investors, small and medium-sized enterprises, middle-market enterprises and large corporates. We provide tailored financial solutions to our corporate and institutional clients worldwide. We are also the bank with most established dealing rooms across the region among Taiwanese banks. With the strong support of product development, pricing capabilities, and warehousing appetite from Head Office, our dealing rooms in different countries are able to access to the most products with a real-time pricing and processing platform.

CTBC Bank remained the leading investment bank, performing well in the reporting year. In response to the changing market and regulatory environment, CTBC Bank continues to strengthen its risk management for exotic derivatives and to improve client protection, while enhancing its ability to offer completed solutions to its clients. CTBC Bank has developed a regional platform with compelling currency product offerings and geographical coverage. In 2016, in particular, the People's Bank of China relaxed regulations, allowing banks to trade CNY FX on the CFETS (China Foreign Exchange Trade System) platform outside of China. CTBC Bank was the first bank in Taiwan to provide on/off-shore CNY FX services over this platform.

(2) Retail Banking

CTBC Bank remains the pioneer in retail banking product innovation, including wealth management and mortgage services. In addition to enjoying a significant market share, CTBC Bank was also given 79 domestic and international awards in 2016, including twelve consecutive years of "Best Private Bank in Taiwan" from Euromoney and ten consecutive years of "Best Retail Bank in Taiwan" from the Asian Banker.

a. Wealth Management

In 2016, CTBC Bank used numerous customer insight surveys, focus group discussions, and pilot tests to continue improving its products and services to meet customer needs. Both the number of WM customers and AUM saw strong development over the past few years, with 5% and 10% CAGR respectively from 2013.

With the bank's open platform strategy, CTBC Bank is able to provide comprehensive and innovative wealth management services and products to meet diverse customer needs. The two major wealth management product lines, mutual funds and bancassurance, have contributed to CTBC Bank's leading position.

b. Mortgages

As the biggest non-government-affiliated mortgage provider, CTBC Bank is also a market leader, ranked No. 4 on the mortgage market. In spite of a downtrend on the local housing market and regulatory constraints, CTBC Bank continues to improve asset quality to increase profitability with customer-oriented lending strategies. These strategies include designing total financing solutions with virtual and efficient customer services.

c. Internet / Mobile Banking

CTBC Bank provides a wide range of interactive banking services on the internet and mobile devices. In 2016, the number of CTBC internet banking and mobile banking users exceeded 3.1 million and 1.3 million respectively. With its continuously improving and award-winning service platform, CTBC internet and mobile banking continued to be the most popular on the market. CTBC Bank was the first in the industry to launch a feature that allows customers to make transactions more conveniently via iPhone Touch ID fingerprint recognition.

d. ATM Services

CTBC Bank has the largest ATM network with 5,487 ATMs. The bank tops the list in terms of interbank withdrawal transactions, accounting for about 34% of the market share. In addition, CTBC Bank keeps providing innovative ATM functionality and effective marketing strategies, such as inter-bank cash deposits and cardless withdrawals.

(3) Cards and Payment Banking

CTBC Cards and payment business maintained a sustainable portfolio and profitability in 2016. It was:

- No.1 in credit card issuing revenue with more than NT\$3.5 billion (market share of 13.6%)
- No.1 in terms of cards in circulation with more than 5.9 million cards (market share of 14.7%)
- No.2 in spending volume with more than NT\$335.3 billion (market share of 13.8%)
- No.1 in revolving outstanding (including unbilled installment balance) with more than NT\$28.4 billion (market share of 13.9%)
- No.1 in credit card cash advances with more than NT\$8.3 billion (market share of 32.6%)
- No.1 in unsecured lending ending balance with NT\$98 billion (market share of 10.9%)

Awarded:

- Best Digital Wallet Initiative of 2016 CEPI (Card and Electronic Payment International) Asia Awards for CTBC Card App
- Best Data Analytics Program of 2016 CEPI Asia Awards for CTBC big data team
- Global winner of the Technology Projects for the Year 2016 of The Banker for CTBC Credit Card Intelligent Customer Service

CTBC Bank continues to deepen relationships with co-branded partners and to provide our merchants with an integrated cash flow and marketing platform. Most importantly, CTBC Bank aims to combine traditional credit cards, mobile apps, digital wallets, and its bill payment and lending platform to provide customers with a comprehensive experience for their digital life.

a. Credit Cards

In 2016, CTBC Bank maintained the leading position on the credit card market and placed a strong focus on an expanding portfolio in distinct segments with specific new products.

CTBC issued Paper Wind Mill cards for art and culture enthusiasts, the CTBC Brothers card to promote baseball, and the T&E card specifically for the young generation. CTBC Bank was also the first bank to integrate four airline mileage programs onto one single card (China Airlines, China Eastern Airlines, China Southern Airlines, and Xiamen Airlines). The card is the Greater China Connection Co-branded Card. In 2016, CTBC also launched the Line Pay co-branded Card. Collaborating with the most popular social media in Asia, CTBC Bank aimed to connect our customers into Line Pay's ecosystem.

b. Emerging Payments

CTBC Bank continues to create a better customer experience for mobile payment. Customers can check account information, inquire about merchant discounts, and make mobile payments easily using the CTBC Card App. Moreover, CTBC Bank cooperated with the largest e-commerce platform – Yahoo Taiwan and the most popular communication app – LINE to connect with customers.

c. Unsecured Lending

By leveraging digital banking capabilities, CTBC Bank launched CTBC loan application and automatic information-processing platform. Customers can use smartphones, tablets, or PCs to access the platform which provides simple and efficient online loan services covering the following:

- a loan consultancy with personalized loan arrangements
- a speedy loan process that can take as little as four hours
- loan disbursements that customers can access by simply clicking, rather than visiting our branch.

Furthermore, providing customers more valuable lending content and differential marketing campaigns through digital and social media channels has been the key driver of growth of our sales volume each year.

(4) Business in Japan

CTBC Bank has undertaken the responsibility to supervise and manage two operations in Japan, namely, Tokyo Star Bank (TSB) subsidiary and Tokyo Branch. TSB provides prominent financial services to customers in the institutional banking and retail banking fields its 32 branches in greater Tokyo. Our Tokyo branch, its headquarters located in Chiyoda, provides a full range of financial services to meet the business and financial needs of Taiwanese retail and corporate customers.

a. Institutional Banking

Our main operation offices, located in Tokyo and Osaka, have enjoyed steady business growth. By the end of 2016, our institutional banking loan balance grew 4% over the previous year. We continue to enhance the scope of products and services to meet customer needs, including:

- financial services to meet customers' cross-border business needs

In recent years, Japanese enterprises have continued to actively expand their operations overseas. To keep up with this trend, CTBC Bank provides a variety of cross-border financial services, such as export credit insurance, overseas structured lending, and syndicated loans, to meet clients' overseas operation needs.

- MBO/LBO Financing

Provide MBO/LBO financing to facilitate clients' business strategy.

b. Retail Banking

With stable deposit inflows from its 32 branches in major cities in Japan, TSB easily captured business opportunities for wealth management on the local market. Total TSB deposit balance reached JPY2 trillion as of Dec 2016. With a view to help customers pursue “financial freedom”, TSB provided affluent financial services with new offerings launched in 2016, such as:

- Securities and personal trust services

To meet customer needs of diversified investments and inheritance, TSB established alliance with external partners to provide securities and personal trust services.

- Financial advisory

TSB deploys experts to provide valued-added advisory services, such as investment planning, insurance planning, taxation and inheritance advisory, and real estate consultation.

B. Employees

| YEAR | 2016.12.31 | | 2015.12.31 | |
|--------------------------------------|----------------|------------|----------------|------------|
| Number of Employees | 11,060 | | 10,719 | |
| Average Age (Years Old) | 37.8 | | 37.8 | |
| Average Tenure of Employment (Years) | 9.2 | | 9.2 | |
| Education | Employee Count | Percentage | Employee Count | Percentage |
| Graduate School or Higher | 2,431 | 22.0% | 2,333 | 21.7% |
| University and College | 7,788 | 70.4% | 7,445 | 69.5% |
| Senior High School | 783 | 7.1% | 881 | 8.2% |
| Below Senior High School | 58 | 0.5% | 60 | 0.6% |

C. Social Responsibility

As an organization committed to sustainable business development, CTBC has long worked to promote corporate social responsibility and strengthen its corporate governance, environmental protection endeavors, and social participation. Ten years ago, in 2007, CTBC published the Taiwanese financial industry’s first dedicated CSR report. In another industry first, we received ISO 50001 Energy Management certification in 2012. In 2016, CTBC became industry leaders by adopting the principles of integrated reporting and meeting the GRI G4 International Reporting Guidelines. Over the years, the Group’s long-term CSR efforts have been widely and warmly recognized by professional organizations in Taiwan and abroad.

In 2016 alone, CTBC was selected to be included in the Morgan Stanley Capital International (MSCI) Global Sustainability Indexes and the Dow Jones Sustainability Indices (DJSI) Emerging Markets Index. Among all the Taiwanese companies included in the MSCI Global Indexes, CTBC was the only financial institution in the top 10. Underscoring our top-ranked brand value, we were the only Taiwanese financial institution to make the top 100 in the banking

brand values report released by Brand Finance, a U.K.-based brand appraisal agency. In the 2016 Best Taiwan Global Brands survey conducted jointly by the Ministry of Economic Affairs' Industrial Development Bureau and Interbrand, CTBC had the most valuable brand in the financial industry in Taiwan. In addition, the Group was ranked in the top 5% of TWSE-listed companies in the Taiwan Stock Exchange's Corporate Governance Evaluation, and CTBC stock has been included in the TWSE Corporate Governance 100 Index as a constituent for two consecutive years. Such recognition represents the concrete result of CTBC's efforts in CSR, corporate governance, and sustainable development.

1. Sustainable Governance

To strengthen corporate governance and enhance business performance, CTBC in 2006 implemented a professional management system, under which the management team, led by the President, is responsible for the performance of the Group, while the Chairman and the Board of Directors oversee the performance of the management team. We also augmented our participation in investor conferences both in Taiwan and internationally to properly disclose operational and financial information. In 2008, the independent director system was introduced and three independent directors from business, legal, and academic communities were appointed to strengthen the expertise and independence of the Board.

To reinforce the Board's management and supervisory functions, CTBC established the Audit Committee, the Remuneration Committee and the Risk Management Committee under the Board of Directors in 2009. The following year, the Corporate Governance Officer position was created directly under the Office of the Chairman to assist the Board of Directors in implementing sound corporate governance practices throughout CTBC Holding and its subsidiaries as well as facilitating coordination among these subsidiaries. To uphold the principle of separating management from oversight, the board directors of CTBC Holding and CTBC Bank do not assume any management positions. Through these efforts, we have successfully built a system of clear separation of responsibilities, with "managers in charge of operations, while the Board of Directors is responsible for supervising the management team."

In response to our long-term strategic development and to elevate the effectiveness of our corporate governance, an election was held at the end of 2016 for CTBC's entire Board of Directors. Four independent directors were elected to the seven-member Board, demonstrating CTBC's adherence to the principle of separation between oversight and management and making CTBC the first financial institution in Taiwan—and one of the few publicly listed companies, along with businesses such as Taiwan Semiconductor Manufacturing Company—with a majority of independent board directors. The practice set a new standard for corporate governance among financial holding companies. With expertise in various areas, independent directors supervise the management team during major decision-making and support the company to achieve sustainable development.

At the end of 2016, we took another significant step to reinforce our overall supervisory mechanism by establishing the Nominating Committee. This body is tasked with developing the standards and qualifications required of directors and supervisors, evaluating the performance of the Board, and devising training plans for directors.

To take on more social responsibility, CTBC implemented CSR policies with concrete measures and formed dedicated groups to carry out related tasks. The CSR Taskforce was set up in 2011 and over the next six years developed into the CTBC CSR Committee, which is chaired by the President of CTBC Holding. The presidents of CTBC subsidiaries are members of the committee, and independent directors are invited to attend and supervise meetings. The committee is further separated into several working groups responsible for corporate governance, employee care, customer care, social participation, and environmental sustainability to ensure the thorough implementation of related policies. The committee empowers CTBC in all aspects of environmental, social, and governance and endeavors to maximize the interests of stakeholders.

2. Social Care

With the goal of achieving sustainable business development, CTBC leads the industry in not only business innovation and management but also charitable campaigns aiming to eradicate social problems in Taiwan. The Group has been recognized as a role model in social care as it has launched many groundbreaking social welfare programs, with the Group's resources and embedded corporate culture of volunteering directed to where they are most needed.

Light Up a Life was the first charity initiative established by the company, and as such marked the start of CTBC's commitment to public welfare. Our devotion to social welfare over the decades was inspired by a simple love of children. Thirty-two years ago, in 1985, CTBC Holding founder Jeffrey Koo Sr. felt compelled to make a difference in the lives of children living in remote areas and initiated the Light Up a Life fundraising campaign. All the collected donations were given to social welfare organizations working with disadvantaged children and families.

We believe that when children living in remote areas are given adequate support and opportunities, they can change their lives for the better. This has been proven true time after time by Light Up a Life, which is now the longest-running charity campaign in Taiwan and the most visible platform for the public to help disadvantaged children. Over the past three decades, it has raised donations exceeding NT\$1.7 billion that have been used to help approximately 360,000 people. These results underline the public's support, trust, and goodwill for the campaign.

Through our decades of work with disadvantaged children, we have discovered that many of those living in remote areas are raised by their grandparents. In these areas, up to 36% of children loiter outside after school without parental supervision. To provide these children with a healthier environment in which to live and pursue their dreams, we launched the Community Project in 2015. The initiative provides educational support and nutritional services for children in remote communities, mostly in mountainous areas and on outlying islands. The project works by marshalling central and local government resources and leveraging the efforts of volunteers and the general public to provide children with a warm and loving second home. The Ministry of Health and Welfare has praised the program as a successful model.

One problem that plagues children in both remote and urban areas is drug abuse. In recent years, CTBC has observed the increasingly severe influence of such abuse on children's development. To address this, CTBC integrated resources from academia, domestic institutions, and professional foreign groups to establish the CTBC Anti-Drug Educational Foundation in 2015. As Taiwan's first corporate-sponsored group specializing in drug education, the Foundation has served as a crucial drug awareness platform for the government and the public, partnering with government agencies and NGOs worldwide including the justice and education ministries in Taiwan, the Drug Enforcement Administration Educational Foundation in the United States, and the China Narcotics Control Foundation in mainland China. It also holds drug education exhibition that utilize 3-D interactive technology and documentaries to raise children's awareness of the hazards of drugs.

In addition to helping disadvantaged children, CTBC also helps parents start their own businesses to escape poverty. Inspired by the microfinancing concept of Nobel Peace Prize winner Dr. Muhammad Yunus's Grameen Bank, we introduced the first such initiative in Taiwan in 2011 with the CTBC Poverty Alleviation Program (CPAP). Combining our expertise in entrepreneurship counseling, lending, social work, and business planning, CPAP provides microfinancing to help disadvantaged families meet their basic needs and escape poverty. CTBC subsequently introduced the PAP Merchants brand to promote products created through CPAP microloans. Over the past six years, CPAP has provided support for 1,200 would-be entrepreneurs, of whom 166 have so far succeeded in starting up their own businesses. For its work giving disadvantaged children and their families the courage to pursue their dreams, the program won the Excellence Award under the 11th Charity Support Category at the 2015 Corporate Social Responsibility Award Ceremony held by *Global Views Monthly*, as well as the Taiwan Corporate Sustainability Social Inclusion Award.

Also in recent years, we discovered that many children in remote locations have both a passion and a talent for baseball but that this potential often goes unharnessed due to a lack of stable funding and resources. In 2014, CTBC initiated the Rural Youth League Program,

which has so far provided funding for 25 youth league baseball teams. CTBC is endeavoring to improve Taiwan's overall competitiveness in baseball—widely considered the national pastime of Taiwan—by supporting both this youth competition as well as the professional league through sponsorship and by organizing tournaments. We are also working to cultivate talented female golfers and sponsor golf tournaments to promote Taiwan to the world through the sport.

CTBC firmly believes that education provides people with opportunities to change their lives. In 2015, we made a donation to a college on the brink of closure and transformed it into CTBC Financial Management College. The college is aimed at fostering the development of future financial specialists, offering grants and scholarships to disadvantaged students with outstanding academic performances. Over the past two years, CTBC Financial Management College has achieved 100% student enrollment and has been recognized by the Ministry of Education as an example of a new type of corporate support for education.

We have long dedicated a great deal of effort in supporting the arts, such as with the founding of CTBC Foundation for Arts and Culture in 1996. Novel Hall, the performing arts center sponsored by CTBC for 18 years, provided artists with a venue for performing arts, becoming a model example of corporate and cultural arts integration in the process. CTBC also funds performing arts, world-class art exhibitions and performances, and artist exhibitions in the hope of enriching the lives of people through the arts. The CTBC Arts Festival was launched in 2015 with the mission of bringing cultural arts to cities across Taiwan. Our support for artistic and cultural events allows people to experience the arts in more diverse forms than they otherwise could. For instance, CTBC's sponsorship of the local premiere of Ang Lee's 2016 film *Billy Lynn's Long Halftime Walk* provided people in Taiwan with a unique opportunity to see landmark cinematic artistry.

In addition to our efforts to improve society through external arms and means, we have also implemented the Good Deeds Leave program—the first of its kind among financial holding companies—to encourage a culture of volunteering within the Group. Currently, we have over 2,000 volunteers (roughly one in 10 employees), who have helped more than 60,000 disadvantaged children. CTBC not only encourages its employees to extend their love to others, but it also cares for them as family members. To meet its employees' basic needs as well as the need for self-development, CTBC provides generous and incentivized compensation schemes in addition to various benefits, training programs, and a promotion mechanism superior to those of industry peers. We also value human rights, gender equality, and transparent channels for labor-management communication. Beginning in 2016, human rights issues were covered in new employee training. That women make up 60% of managerial positions and 70% of those recognized annually as model employees demonstrates just how committed we are to nondiscriminatory career advancement.

“We are family” is more than a slogan—it is the spirit of the CTBC brand, in which we care for our employees and clients in the way we do our family. This care in turn spreads across our community and country, like ripples in a pond, as we continue to expand our efforts in the five categories of charitable endeavors: social welfare, physical education, drug awareness, education, and cultural arts. CTBC devotes company resources to creating positive cycles with the goal of encouraging public participation and contributing to a better world.

3. Environmental Sustainability

In line with our commitment to sustainable development and “Green Policy, Green Future,” we have built upon the foundations of energy efficiency, carbon reduction, resource management, and green buildings to expand our green action further to green services, green sourcing, and green consumption, with the ultimate goal of protecting the Earth. The concepts of environmental protection and energy conservation are at the core of the design of the Group’s headquarters, CTBC Financial Park, which boasts 29,752 square meters of park area, 28,099 square meters of public and green space, and 264,463 square meters of gross floor area. The complex incorporates various environmental-protection and energy-saving techniques and is the largest financial institution building in Taiwan to receive diamond-level green building status. The building’s water facilities, fountains, and sprinkler equipment utilize rainwater reclamation and water-recycling technologies, while solar panels are installed to supply electricity for the financial park’s public spaces. We are also working to shrink our carbon footprint, such as by purchasing products that meet strict standards in environmental protection, energy efficiency, water conservation, and green construction. As a result, the Group has received the Outstanding Contribution to Green Purchasing by a Private Enterprise award from Taipei City Government’s Department of Environmental Protection for eight consecutive years.

In the spirit of the Equatorial Principles, CTBC has established a credit policy that supports the green energy and environmental protection industries. In making investment and financing decisions, we also consider carbon emissions and carbon-related issues along with the potential environmental and social impact. Over the past three years, our clients in the green industry customers have increased by 20%—a clear sign of CTBC’s increasing attention to and support of the industry.

Climate change is a tremendous global challenge, and CTBC has taken concrete actions to realize its commitment to the planet. We were one of the first Taiwanese financial institutions that signed on to the CDP (formerly Carbon Disclosure Project) in 2012. In the same year, we became the first financial institution in Taiwan to be granted ISO 50001 Energy Management certification. In 2015, CTBC received both ISO 14001 Environment Management System and ISO 14064-1 Greenhouse Gas Emissions Reporting certification, and in the following year the Leadership A- recognition from CDP—the best result in Taiwan’s financial industry. Also in

2016, CTBC was honored with the R.O.C. Enterprise Environmental Protection Award from the Executive Yuan's Environmental Protection Administration.

In the 50 years since the founding of CTBC, the brand of the Group has been our most important intangible asset. In 2016, CTBC won 167 top domestic and foreign awards recognizing the Group's efforts in business performance, brand image, CSR, and sustainable performance. We also integrated sustainable development as well as environmental, social, and governance issues into our policies and development programs. We will continue to uphold our "We are family" brand spirit, "protect and build" corporate mission, and "caring, professional and trustworthy" brand features in order to promote corporate governance and fulfill our corporate social responsibility. The Group will strive to create value for its customers, employees, shareholders, suppliers, and society as it develops its brand as a "Taiwan Champion and Asia Leader." CTBC also aspires to be the most reliable financial institution with the strongest governance for its customers and shareholders.

Summary of CTBC's CSR awards and recognition in 2016

- Selected as a constituent stock of the MSCI Global Sustainability Indexes
- Selected as a constituent stock of the DJSI Emerging Markets Index
- CDP Leadership A- rating
- Corporate Governance Asia: Best CSR
- The Asian Banker: Best Managed Bank in Taiwan
- FinanceAsia: Best Bank in Taiwan
- Global Finance: Best Bank in Taiwan
- Enterprise Asia: Social Empowerment Award
- *Global Views Monthly*: Corporate Social Responsibility Award
- World Branding Forum: Brand of the Year, banking category
- Ministry of Economic Affairs' Industrial Development Bureau and Interbrand 2016 Best Taiwan Global Brands: Fourth place and the only financial holding company selected

IV. Dividend Policy and Earnings Distribution

A. Dividend policy and status of execution

1. Dividend policy:

As a subsidiary of the CTBC Financial Holding Co., Ltd. in order to take care of the fund requirements of the parent company, if the Bank may reach the reasonable standard of BIS Ratio, the cash dividends and bonuses for common shares shall be in priority and shall be maintained at a stable level every year.

The above policy, however, is to be observed only in principle. The Bank shall take into consideration of business performance and budgeted capital requirements and make necessary adjustments in actual distribution.

Distribution terms, time, and amount: If there are earnings in the financial statement, the Bank shall first set aside funds for taxes, be adjusted according to the principles of financial accounting, and set aside funds for losses, if any. Then it shall set aside 30% of the earnings as statutory surplus reserve and the Bank shall as per applicable laws and regulations set aside or reverse the special reserve. The way of distributing the remainder and the beginning retained earnings shall be proposed by the Board of Directors and approved by the Shareholders' Meeting. Before the statutory surplus reserve reaches the amount of the total capital, the distributed cash dividends shall not exceed 15% of the total capital. If the bank's statutory surplus reserve has reached the total capital of item 2 of No. 50 in the banking law financial business standards regulated by the authorities and has proposed the statutory surplus reserve according to the company law, it will not be limited by the statutory surplus reserve and the highest cash earning distribution.

2. The Board has approved the earnings appropriation proposal for Year 2016. It is proposed that total NT\$9,559,984 thousand from retained earnings of Year 2016 will be distributed in stock according to the record shown in the shareholder book on the distribution record date (Record Date). The total common stock dividends are NT\$0.72907 per share in stock. In the event of capital raising or reduction, which affects the number of outstanding shares on Record Date, the Chairman shall be authorized to handle relevant matters.

B. The influence of dividend allocation this time to the business performance and earnings per share: There was no announced financial forecast for the bank in Year 2017; therefore no disclosure of such information is needed.

C. Information relating to compensation of employees, directors, and supervisors:

1. The percentages or ranges with respect to employee, director, and supervisor compensation, as set forth in the company's articles of incorporation:

The employee bonuses allocation is set at 0.05% of the Bank's pretax income before deduction of employee compensation at the end of the accounting period as employee compensation in the Articles of Incorporation. However, the board of directors and supervisor compensation are not mentioned in the Articles of Incorporation.

2. The basis for estimating the amount of employee, director, and supervisor compensation, for calculating the number of shares to be distributed as employee compensation, and the accounting treatment of the discrepancy, if any, between the actual distributed amount and the estimated figure, for the current period:

Estimation of the fair value of employee compensation is recognized as current-period expenses based on the Bank's pretax income before deduction of employee compensation at the end of the accounting period multiplied by the percentage set by the Bank's articles of incorporation. However, if later the actual allocation amount pursuant to a resolution of the Bank's board of directors is different from the estimated number, the difference would be recognized as the profit or loss of the next year.

3. Information on any approval by the board of directors of distribution of compensation:

- (1) The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors. If there is any discrepancy between that amount and the estimated figure for the fiscal year these expenses are recognized, the discrepancy, its cause, and the status of treatment shall be disclosed.

- a. Cash compensation of employee is NT\$13,472 thousand.

- b. The discrepancy: Accrued expense of employee compensation is NT\$13,498 thousand. The discrepancy between the actual allocation amount and accrued expense for employee compensation is NT\$26 thousand.

- c. Reason: The discrepancy caused is due to the reason that the monthly closing number of net income before tax used to estimate accrued expense is different from the actual closing number of net income before tax at the end of the accounting period.

- d. Treatment: The difference would be treated as change in accounting estimates of year 2017.

- (2) The amount of any employee compensation distributed in stocks, and the size of that amount as a percentage of the sum of the after-tax net income stated in the parent company only financial reports or individual financial reports for the current period and total employee compensation:

It is not applicable due to no employee compensation distributed in the form of stock.

4. The actual distribution of employee, director, and supervisor compensation for year 2015 (with an indication of the number of shares, monetary amount, and stock price, of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated:

| | Year 2015 | | | |
|--|---|---------------------|-------------------|--|
| | Distributed with the resolution from the Annual General Meeting | Recognized expense | Difference (Note) | Explanation |
| Distribution status : | | | | |
| A.Employee compensation distributed in the form of cash | NT\$18,884 thousand | NT\$19,125 thousand | NT\$241 thousand | The difference is due to the monthly closing number of net income before tax used to estimate accrued expense is different from the audit one. |
| B.Employee compensation distributed in the form of stock | | | | |
| (1) shares | - | - | - | |
| (2) amount | - | - | - | |
| (3) stock price | - | - | - | |
| C.Remuneration to Directors and Supervisors | - | - | - | |

Note: The difference amounting to NT\$241 thousand regarded as changes in accounting estimates and recognized as profit or loss of year 2016.

V. Internal Control Statement

Internal Control Statement

To: Financial Supervisory Commission,

On behalf of CTBC Bank Co., Ltd., we hereby certify that for the fiscal year of 2016, the company has duly complied with the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" in establishing its internal control system, implementing risk management mechanism, designating an independent audit department to conduct audits, and regularly reporting to the company's Board of Directors and the Audit Committee. For the securities business operations, the company has evaluated the effectiveness of related internal control system in accordance with requirements promulgated by "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets".

After prudent evaluation, we hereby certify that except items listed on the attachments, the company complies with all related laws and regulations, and the internal controls are effectively in place. This statement will be included in the company's annual report and public prospectuses, and be disclosed to the public.

We understand that we are legally bound to Article 20, 32, 171 and 174 of the Securities and Exchange Act.

Sincerely yours,

Chairman



President



General Auditor



Chief Compliance Officer



CTBC Bank Co., Ltd.
Issue and Corrective Actions for Internal Control Statement
As of December 31, 2016

| Issue for Improvement | Corrective Actions | Target Completion Date |
|---|--|---|
| <p>1. Financial Supervisory Commission (FSC) conducted a limited-scope examination on customer onboarding of Offshore Banking Unit (OBU) of CTBC Bank (“the Bank”) in 2016 and noted the following major deficiencies :</p> <p>(1) Certain employees were found involved in recommending the establishment of offshore company and referring formation agent to customers. Further, the control over verification of offshore company authenticity was not implemented properly.</p> <p>(2) Some employees were found to assist customers in preparing their financial reports. Besides, trading limits were approved without proper verification over customers’ financial information.</p> <p>FSC imposed an administrative fine of NTD 6 million and issued a reprimand letter against the Bank. In addition, the Bank was requested to cease selling new contracts of foreign exchange derivatives (including structured products) to counterparties except for professional institutional investors, high net worth corporate investors and stop-loss transactions. It will not be lifted until the completion of rectification actions recognized by FSC.</p> | <p>(1) The Bank had refined the relevant control procedures to prohibit any recommendation to mislead customers on offshore company establishment as well as formation agent referral, and to enhance verification of customers’ financial information. Moreover, the customer’s risk tolerance capacity will be taken into high consideration prior to approval of trading limits.</p> <p>(2) The Bank had conducted staff training, revised the code of conduct, and requested the relevant staff to sign up the code.</p> | Completed. |
| <p>2. The Bank served as a mandated institution for certain company’s public tender offer. FSC found that the Bank's know your customer (KYC) procedure for offeror was not implemented properly, and it lacked control to identify the offeror under proceeding of public tender offers. FSC imposed an administrative fine of NTD 3 million on the Bank and ordered the Bank to suspend public tender offer related business for 3 months.</p> | The Bank had revised the KYC procedure and established control mechanism for proceeding the aforesaid public tender offers in line with new regulations promulgated. | The Bank has filed an administrative appeal against the administrative fine. (case pending) |

| Issue for Improvement | Corrective Actions | Target Completion Date |
|--|--|------------------------|
| 3. CTBC Insurance Brokers Co., Ltd. was found to conduct improper identification of beneficial owners of certain corporate accounts and verification on customer product suitability. As a result, FSC imposed an administrative fine of NTD 600 thousand and requested the Bank to complete the rectification within 1 month. (This case occurred prior to the date of the merger of CTBC Insurance Brokers by CTBC Bank on November 30, 2015.) | The Bank had revised operating procedures and reiterated related requirements. | Completed. |
| 4. It was found that irrelevant customers' information on trust asset statements was mistakenly sent out by the Bank. Hence, FSC issued a reprimand letter against the Bank. | The Bank had enhanced the system function to ensure data accuracy. | Completed. |
| 5. The Bank's treasury marketing business was found with unclear disclosure of adverse scenario to customers, inadequate assessment on customers' risk tolerance capacity, improper implementation of customer identity verification, and misconduct involving staff's signing up transaction confirmations for a customer. As a consequence, a reprimand was imposed on the Bank. | The Bank had conducted staff training and enhanced operating procedures on risk disclosure and customer identity verification. | Completed. |
| 6. FSC issued a reprimand letter against the Bank due to improper implementation of credit investigation and verification of transaction authenticity to corporate loans of certain group company. | The Bank claims this nonperforming loan through legal process in order to protect Bank's interests. In addition, the Bank had strengthened controls over credit investigation and enhanced staff training. | Completed. |

VI. Audit Committee's Report of the Financial Statement Of the Last Year

The Audit Committee's Report

In accordance with Article 14-4 of Security and Exchange Law and with Article 219 of the Company Act, the undersigned, have duly examined and accepted as correct the financial report (unconsolidated and consolidated) for the year 2016 along with the business report and earnings distribution plan submitted by the Board of Directors of CTBC Bank Co., Ltd.

CTBC Bank Co., Ltd.
Audit Committee Convener



Wen-Chih Lee
Taipei, Taiwan, R.O.C.
April 28, 2017

VII. Head Office and Domestic Branches

Domestic Branches

| Branch Name | Address | Telephone |
|-------------------------------------|---|------------------|
| Head Office (Banking Department) | 1F., No.168, Jingmao 2nd Rd., Nangang District, Taipei City 115, Taiwan (R.O.C.) | +886-2-33271688 |
| Jhancian Branch | 1F., No.4, Sec. 1, Zhongxiao W. Rd., Zhongzheng District, Taipei City 100, Taiwan (R.O.C.) | +886-2-23113598 |
| Huashan Branch | 1F., No.55, Sec. 1, Zhongsiao E. Rd., Zhongzheng District, Taipei City 100, Taiwan (R.O.C.) | +886-2-23413000 |
| Dongmen Branch | 1F., No.213, Sec. 2, Sinyi Rd., Zhongjheng District, Taipei City 100, Taiwan (R.O.C.) | +886-2-23958000 |
| Chengjhong Branch | 1F., No.83, Sec. 1, Chongcing S. Rd., Zhongjheng District, Taipei City 100, Taiwan (R.O.C.) | +886-2-23818740 |
| Daan Branch | 1F., No.102, Sec. 2, Roosevelt Rd., Zhongjheng District, Taipei City 100, Taiwan (R.O.C.) | +886-2-33651988 |
| Mincyuan west road Branch | 1F., No.104-1, Mincyuan W. Rd., Datong District, Taipei City 103, Taiwan (R.O.C.) | +886-2-25572919 |
| Chengde Branch | 1F., No.17, Sec. 1, Chengde Rd., Datong District, Taipei City 103, Taiwan (R.O.C.) | +886-2-25562088 |
| Sihu Branch | 1F., No.244, Sec. 1, Neihu Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.) | +886-2-27999588 |
| Jhongsan Branch | 1F., No.106-2, Sec. 2, Jhongsan N. Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-25235222 |
| Minsheng Branch | 1F., No.58, Sec.1, Minsheng E. Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-25641818 |
| East Minsheng Branch | 1F., No.51, Sec. 3, Minsheng E. Rd., Zhongshan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-25093656 |
| Dazhi Branch | 1F., No.638, Mingshuei Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-85026002 |
| Chengbei Branch | 1F., No.218, Songjiang Rd., Jhongsan District, Taipei City 104, Taiwan(R.O.C.) | +886-2-25623789 |
| Nanjing East Road Branch | 1F., No.16, Sec. 1, Nanjing E. Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-25232238 |
| Chengdong Branch | 1F., No.88, Sec. 2, Nanjing E. Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-25677377 |
| Longjiang Mini Branch | 1F., No.65, Sec. 3, Nanjing E. Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2-25158811 |
| Chang An Branch | No.26, Fusing N. Rd., Jhongsan District, Taipei City 104, Taiwan (R.O.C.) | +886-2- 27785881 |
| Jhunglun Branch | 1F., No.85, Sec. 4, Bade Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.) | +886-2-27672669 |
| Fujin Branch | 1F., No.165, Sec. 5, Minsheng E. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.) | +886-2-27602766 |
| Sisong Branch | 1F., No.161, Sec.5, Nanjing E. Rd., Songshan District, Taipei City 105, Taiwan, (R.O.C.) | +886-2-37655588 |
| Fubei Branch | 1F., No.363, Fusing N. Rd., Songshan District, Taipei City 105, Taiwan (R.O.C.) | +886-2-87705566 |
| Dunbei Branch | 1F., No.122, Dunhua N. Rd., Songshan District , Taipei City 105, Taiwan (R.O.C.) | +886-2-27133322 |
| Renai Branch | 1F., No.341, Sec. 4, Renai Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-27754600 |
| Anhe Branch | 1F., No.195, Sec. 2, Anhe Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-27386171 |
| Yanji Branch | 1F., No.298, Sec. 4, Jhongsiao E. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-27716000 |
| Jhongsiao Branch | 1F., No.71, Sec. 4, Jhongsiao E. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-27520310 |
| Sinyi Branch | 1F., No.236, Sec. 4, Sinyi Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-27079977 |
| Fusing Branch | 1F., No.251, Sec. 1, Dunhua S. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-27771988 |
| Dunnan Branch | 1F., No.68, Sec. 2, Dunhua S. Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-23253616 |
| Gungguan Branch | 1F., No.311, Sec. 3, Roosevelt Rd., Daan District, Taipei City 106, Taiwan (R.O.C.) | +886-2-23623377 |
| Wanhua Branch | 1F., No.92, Sec. 2, Changsha St., Wanhua District, Taipei City 108, Taiwan (R.O.C.) | +886-2-23898188 |
| Yongji Branch | 1F., No.18, Yongji Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.) | +886-2-27617999 |
| Songshan Branch | 1F., No.550, Sec. 5, Jhongsiao E. Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.) | +886-2-23466711 |

| Branch Name | Address | Telephone |
|-----------------------|---|-----------------|
| Shinfu Branch | 1F., No.9, Songgao Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.) | +886-2-27221668 |
| Tianmu Branch | 1F., No.90, Sec. 6, Jhongshan N. Rd., Shihlin District, Taipei City 111, Taiwan (R.O.C.) | +886-2-28322888 |
| Shihlin Branch | 1F., No.307, Jhongheng Rd., Shihlin District, Taipei City 111, Taiwan (R.O.C.) | +886-2-28839900 |
| North Tianmu Branch | 1F.,No.10, Tianmu W. Rd., Shilin District, Taipei City 111, Taiwan (R.O.C.) | +886-2-28766100 |
| Jiantan Branch | 1F, No.150, Sec. 4, Chengde Rd., Shilin District, Taipei City 111, Taiwan (R.O.C.) | +886-2-28827979 |
| Shihpai Branch | 1F., No.46, Sec. 2,Shihpai Rd., Beitou District, Taipei City 112, Taiwan (R.O.C.) | +886-2-28213366 |
| Beitou Branch | 1F., No.217, Guangming Rd., Beitou District, Taipei City 112, Taiwan(R.O.C.) | +886-2-28983039 |
| Rueiguang Branch | No.514, Sec. 1, Neihu Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.) | +886-2-27985600 |
| Chenggong Branch | 1F., No.161, Sec. 4, Chenggong Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.) | +886-2-87911686 |
| Neihu Branch | 1F., No.358, Sec. 4, Chenggong Rd., Neihu District, Taipei City 114, Taiwan (R.O.C.) | +886-2-27938668 |
| Donghu Mini Branch | No.460, Sec. 5, Chenggong Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.) | +886-2-26312288 |
| Mujha Branch | 1F., No.69, Sec. 3, Mujha Rd., Wunshan District, Taipei City 116, Taiwan (R.O.C.) | +886-2-29375890 |
| Wunshan Branch | 1F.,No. 248,Sec. 4,Sinhai Rd.,Wunshan District,Taipei City 116,Taiwan(R.O.C.) | +886-2-29335358 |
| Jingmei Branch | No. 405, Sec. 6, Roosevelt Rd., Wenshan District, Taipei City 116, Taiwan (R.O.C.) | +886-2-29329838 |
| Keelung Branch | 1F., No.150, Sinyi Rd., Sinyi District, Keelung City 201, Taiwan (R.O.C.) | +886-2-24221166 |
| Pucian Mini Branch | No.409, Sec. 2, Zhongshan Rd., Banqiao Dist., New Taipei City 220, Taiwan (R.O.C.) | +886-2-29550666 |
| Bansin Branch | 1F., No.293-1, Sec. 1, Jhongshan Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.) | +886-2-89611500 |
| Banciao Branch | 1F., No.187, Sec. 1, Wunhua Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.) | +886-2-29606600 |
| Chongcing Branch | 1F., No.290, Chongcing Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.) | +886-2-29634567 |
| Sinbantecyu Branch | 1F., No.88, Sec. 2, Sianmin Blvd., Banqiao District, New Taipei City 220, Taiwan (R.O.C.) | +886-2-29619666 |
| Jiangcui Branch | 1F., No.8, Sec.3, Shuang 10th Rd., Banciao District , New Taipei City 220, Taiwan (R.O.C.) | +886-2-22578999 |
| Sijhih Branch | 1F., No. 210, Sec. 2, Datong Rd., Sijhih District , New Taipei City 221, Taiwan (R.O.C.) | +886-2-26489699 |
| Sindian Branch | 1F., No.6, Sec. 2, Beisin Rd., Sindian District , New Taipei City 231, Taiwan (R.O.C.) | +886-2-29129988 |
| North Sindian Branch | 1F., No.25, Mincyuan Rd., Sindian District , New Taipei City 231, Taiwan (R.O.C.) | +886-2-29135000 |
| Baociang Branch | 1F., No.31, Baociang Rd., Sindian District, New Taipei City 231, Taiwan (R.O.C.) | +886-2-29123366 |
| Yonghe Branch | 1F., No.215, Sec. 1, Jhongshan Rd., Yonghe District , New Taipei City 234, Taiwan (R.O.C.) | +886-2-89235008 |
| Shuanghe Branch | 1F., No.588, Jhongheng Rd., Yonghe District , New Taipei City 234, Taiwan (R.O.C.) | +886-2-29233333 |
| Nashihjiao Branch | 1F., No.65, Jhongheng Rd., Yonghe District , New Taipei City 234, Taiwan (R.O.C.) | +886-2-29498838 |
| Banhe Mini Branch | 1F., No.726, Jhongheng Rd., Jhonghe District , New Taipei City 235, Taiwan (R.O.C.) | +886-2-82261288 |
| Jhonghe Branch | 1F., No.261, Sec. 2, Zhongshan Rd., Zhonghe District., New Taipei City 235, Taiwan (R.O.C.) | +886-2-22452277 |
| Tucheng Branch | 1F., No.304, Sec. 2, Jhongyang Rd., Tucheng District , New Taipei City 236, Taiwan (R.O.C.) | +886-2-22630888 |
| Jincheng Branch | 1F., No.16, Sec. 3, Jincheng Rd., Tucheng District , New Taipei City 236, Taiwan (R.O.C.) | +886-2-22601177 |
| Shulin Branch | 1F., No.122, Sec.1, Jhongshan Rd., Shulin District , New Taipei City 238, Taiwan (R.O.C.) | +886-2-26812345 |
| Sanhe Branch | 1F., No.119, Sec. 4, Sanhe Rd., Sanchong District , New Taipei City 241, Taiwan (R.O.C.) | +886-2-22863286 |
| Sanchong Branch | 1F., No.208, Jhengyi N. Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.) | +886-2-29828121 |
| Erchongpu Mini Branch | 1F., No.70-1, Sec. 1, Guangfu Rd., Sanchong District, New Taipei City 241, Taiwan (R.O.C.) | +886-2-29959876 |
| Chongyang Branch | 1F., No.66, Sec. 1, Chongyang Rd., Sanchong District , New Taipei City 241, Taiwan (R.O.C.) | +886-2-89881199 |
| Chongsin Branch | 1F.,No.42-1, Sec. 2, Chongsin Rd., Sanchong District , New Taipei City 241, Taiwan (R.O.C.) | +886-2-89726189 |

| Branch Name | Address | Telephone |
|----------------------------|--|-----------------|
| Sinjuhuang Branch | 1F., No.320, Jhongheng Rd., Sinjuhuang District , New Taipei City 242, Taiwan (R.O.C.) | +886-2-29929696 |
| Danfong Branch | 1F., No.879-15, Jhongheng Rd., Sinjuhuang District , New Taipei City 242, Taiwan (R.O.C.) | +886-2-29066888 |
| North Sinjuhuang Branch | 1F., No.57, Sec. 2, Jhonghua Rd., Sinjuhuang District , New Taipei City 242, Taiwan (R.O.C.) | +886-2-22776789 |
| Minan Branch | 1F., No.179, Min-an Rd., Sinjuhuang District , New Taipei City 242, Taiwan (R.O.C.) | +886-2-22068887 |
| Lujhou Branch | 1F., No.211, Jhongshan 1st Rd., Lujhou District , New Taipei City 247, Taiwan (R.O.C.) | +886-2-28482008 |
| East Lujhou Branch | 1F., No.135, Minzu Rd., Lujhou District , New Taipei City 247, Taiwan (R.O.C.) | +886-2-22839300 |
| North Lujhou Branch | 1F., No.355, Changrong Rd., Lujhou District, New Taipei City 247, Taiwan (R.O.C.) | +886-2-22881999 |
| Danshuei Mini Branch | 1F.,No.123, Jhongshan Rd., Danshuei District , New Taipei City 251, Taiwan (R.O.C.) | +886-2-86318822 |
| Yilan Branch | 1F.,No.271,Sec.2,Jhongshan Rd.,Yilan City ,Yilan County 260,Taiwan(R.O.C.) | +886-3-9351122 |
| Lohdong Branch | 1F.,No.232, Singdong S. Rd., Luodong Township, Yilan County 265, Taiwan (R.O.C.) | +886-3-9574320 |
| Hsinchu Branch | 1F., No.158, Jhongheng Rd., East District, Hsinchu City 300, Taiwan (R.O.C.) | +886-3-5222687 |
| Guangfu Branch | No.35, Ln. 19, Guanxin Rd., East District, Hsinchu City 300, Taiwan (R.O.C.) | +886-3-5790678 |
| Jhuke Branch | 1F., No.2, Jinshan St., East District, Hsinchu City 300 , Taiwan (R.O.C.) | +886-3-5638080 |
| East Hsinchu Branch | 1F., No.32, Jianjhong Rd., East District, Hsinchu City 300, Taiwan (R.O.C.) | +886-3-5749190 |
| Baoshan Branch | No.301, Shihpin Rd., East District, Hsinchu City 300, Taiwan (R.O.C.) | +886-3-5628877 |
| Jingguo Branch | 1F., No.375, Sec. 1, Jingguo Rd., Hsinchu City 300, Taiwan (R.O.C.) | +886-3-5357655 |
| Jhupei Branch | 1F., No.49, Guangming 6th Rd., Jhupei City, Hsinchu County 302, Taiwan (R.O.C.) | +886-3-6560222 |
| Jhongyuan Branch | 1F., No.445, Sec. 2, Jhongbei Rd., Jhongli Dist, Taoyuan City 320, Taiwan (R.O.C.) | +886-3-4662211 |
| Neili Mini Branch | 1F.,No.262, Sec. 1, Zhonghua Rd., Jhongli Dist, Taoyuan City 320, Taiwan (R.O.C.) | +886-3-4611998 |
| Jhongli Branch | 1F., No.500, Yanping Rd., Jhongli Dist, Taoyuan City 320, Taiwan (R.O.C.) | +886-3-4223131 |
| Nan JungLi Branch | No.68, Huannan Rd., Pingzhen Dist, Taoyuan City 324, Taiwan (R.O.C.) | +886-3-4028788 |
| Yiwun Branch | No.1351, Zhongzheng Rd., Taoyuan Dist, Taoyuan City 330, Taiwan (R.O.C.) | +886-3-3018000 |
| Taoyuan Branch | 1F., No.32, Sec. 1, Chenggong Rd., Taoyuan Dist, Taoyuan City 330, Taiwan (R.O.C.) | +886-3-3373266 |
| South Taoyuan Branch | 1F., No.389, Fusing Rd., Taoyuan Dist, Taoyuan City 330, Taiwan (R.O.C.) | +886-3-3388866 |
| North Taoyuan Branch | 1F., No.124, Jingguo Rd., Taoyuan Dist , Taoyuan City 330 ,Taiwan (R.O.C.) | +886-3-3150566 |
| Linkou Branch | 1F., No.233, Fuxing 1st Rd., Guishan Dist , Taoyuan City 333, Taiwan (R.O.C.) | +886-3-3962777 |
| Bade Branch | 1F., No.965, Sec. 1, Jieshou Rd., Bade Dist, Taoyuan City 334, Taiwan (R.O.C.) | +886-3-3716565 |
| Nankan Branch | 1F., No.257, Jhongheng Rd., Lujhu Dist, Taoyuan City 338, Taiwan (R.O.C.) | +886-3-3212211 |
| Toufen Branch | 1F., No.951, Jhonghua Rd., Toufen City, Miaoli County 351, Taiwan (R.O.C.) | +886-3-7695678 |
| Taichung Branch | 1F., No.50, Minzu Rd., Central District, Taichung City 400, Taiwan (R.O.C.) | +886-4-22292161 |
| Keboguan Branch | 1F.,No.239, Sec. 2, Taiwan Blvd., West Dist, Taichung City 403, Taiwan (R.O.C.) | +886-4-23101258 |
| Chunggang Branch | 1F., No.536, Sec. 2, Taiwan Blvd., West Dist, Taichung City 403, Taiwan (R.O.C.) | +886-4-23149999 |
| North Taichung Mini Branch | 1F., No.77, Yucai N. Rd., North District, Taichung City 404, Taiwan (R.O.C.) | +886-4-22231666 |
| Wunsin Branch | 1F., No.875, Sec. 4, Wunsin Rd., Beitun District, Taichung City 406, Taiwan (R.O.C.) | +886-4-22469988 |
| Shizheng Branch | No.93, Sec. 2, Wenxin Rd., Xitun Dist, Taichung City 407, Taiwan (R.O.C.) | +886-4-22545333 |
| Situn Branch | 1F., No.859, Sec. 4, Taiwan Blvd., Situn Dist, Taichung City 407, Taiwan (R.O.C.) | +886-4-23551000 |
| Nantun Branch | 1F., No.234, Sec. 2, Wucyuan W. Rd., Nantun District, Taichung City 408, Taiwan (R.O.C.) | +886-4-24712268 |
| Gongyi Branch | 1F., No.53, Sec. 2, Gongyi Rd., Nantun District, Taichung City 408, Taiwan (R.O.C.) | +886-4-23291111 |

| Branch Name | Address | Telephone |
|------------------------|--|-----------------|
| Hueijhong Mini Branch | No. 88, Sec. 3, Hueijhong Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.) | +886-4-23891269 |
| Dali Branch | No.201, Sec. 2, Guoguang Rd., Dali Dist., Taichung City 412, Taiwan (R.O.C.) | +886-4-24813333 |
| Fongyuan Branch | 1F., No.545, Jhongjheng Rd., Fongyuan District, Taichung City 420, Taiwan (R.O.C.) | +886-4-25201010 |
| Nantou Mini Branch | 1F., No.220, Jhongshan St., Nantou City, Nantou County 540, Taiwan (R.O.C.) | +886-49-2207711 |
| Changhua Branch | 1F., No.76, Siaoyang Rd., Changhua City, Changhua County 500, Taiwan (R.O.C.) | +886-4-7279933 |
| Yuanlin Branch | 1F., No.372, Jhongjheng Rd., Yuanlin City, Changhua County 510, Taiwan (R.O.C.) | +886-4-8368676 |
| Chiayi Branch | 1F., No.241, Minsheng N. Rd., Chiayi City 600, Taiwan (R.O.C.) | +886-5-2286600 |
| Douliou Branch | 1F., No.2, Singhua St., Douliou City, Yunlin County 640, Taiwan (R.O.C.) | +886-5-5360099 |
| Central Tainan Branch | 1F., No.167, Sec. 1, Minsheng Rd., West Central District, Tainan City 700, Taiwan (R.O.C.) | +886-6-2412318 |
| Tainan Branch | 1F., No.159, Sec. 1, Fucian Rd., West Central District, Tainan City 700, Taiwan (R.O.C.) | +886-6-2152345 |
| West Tainan Branch | 1F., No.212, Sec. 4, Jinhua Rd., West Central Dist., Tainan City 700, Taiwan (R.O.C.) | +886-6-2263636 |
| Jhonghua Branch | 1F., No.195, Sec. 2, Jhonghua E. Rd., East District, Tainan City 701, Taiwan (R.O.C.) | +886-6-3353535 |
| East Tainan Branch | 1F., No.290, Sec. 2, Changrong Rd., East District, Tainan City 701, Taiwan (R.O.C.) | +886-6-2085522 |
| South Tainan Branch | 1F., No.236, Sec. 2, Jiankang Rd., South District, Tainan City 702, Taiwan (R.O.C.) | +886-6-2919999 |
| Yan Hang Branch | 1F., No.111, Jhongzheng Rd., Yongkang Dist., Tainan City 710, Taiwan (R.O.C.) | +886-6-2539199 |
| Yongkang Branch | 1F., No.425, Jhonghua Rd., Yongkang District, Tainan City 710, Taiwan (R.O.C.) | +886-6-2025787 |
| Rende Mini Branch | 1F., No.478, Zhongshan Rd., Rende District, Tainan City 717, Taiwan (R.O.C.) | +886-6-2798099 |
| Jiali Branch | 1F., No.410, Jhongshan Rd., Jiali District, Tainan City 722, Taiwan (R.O.C.) | +886-6-7221335 |
| Sinying Branch | 1F., No.137, Jhongshan Rd., Sinying District, Tainan City 730, Taiwan (R.O.C.) | +886-6-6336789 |
| Sinsing Branch | 1F., No.206, Minsheng 1st Rd., Sinsing District, Kaohsiung City 800, Taiwan (R.O.C.) | +886-7-2262325 |
| Minzu Branch | 1F., No.97, Minzu 2nd Rd., Sinsing District, Kaohsiung City 800, Taiwan (R.O.C.) | +886-7-2386567 |
| Kaohsiung Branch | 1F., No.168, Jhongjheng 4th Rd., Cianjin District, Kaohsiung City 801, Taiwan (R.O.C.) | +886-7-2318141 |
| East Kaohsiung Branch | 1F., No.29, Cingnian 1st Rd., Lingya District, Kaohsiung City 802, Taiwan (R.O.C.) | +886-7-5351885 |
| South Kaohsiung Branch | 1F., No.21, Yisin 2nd Rd., Cianjhen District, Kaohsiung City 806, Taiwan (R.O.C.) | +886-7-3366768 |
| Cianjhen Mini Branch | 1F., No.480, Rueilong Rd., Cianjhen District, Kaohsiung City 806, Taiwan (R.O.C.) | +886-7-7261066 |
| Jiouru Branch | 1F., No.551, Jiouru 1st Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.) | +886-7-3805558 |
| Sanmin Branch | 1F., No.366, Jiouru 2nd Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.) | +886-7-3161155 |
| North Kaohsiung Branch | 1F., No.52, Mingcheng 2nd Rd., Sanmin District, Kaohsiung City 807, Taiwan (R.O.C.) | +886-7-3461199 |
| Youchang Mini Branch | 1F., No.803-3, Houchang Rd., Nanzih District, Kaohsiung City 811, Taiwan (R.O.C.) | +886-7-3681699 |
| Boai Branch | 1F., No.88, Bo-ai 2nd Rd., Zuoying District, Kaohsiung City 813, Taiwan (R.O.C.) | +886-7-5567909 |
| Gangshan Mini Branch | 1F., No.388, Gangshan Rd., Gangshan District, Kaohsiung City 820, Taiwan (R.O.C.) | +886-7-6235500 |
| Fongshan Branch | 1F., No.85-1, Jhongshan Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.) | +886-7-7451199 |
| Wujia Branch | 1F., No. 699, Wujia 2nd Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.) | +886-7-8215101 |
| Cingnian Branch | 1F., No.315, Sec. 2, Cingnian Rd., Fongshan District, Kaohsiung City 830, Taiwan (R.O.C.) | +886-7-7776668 |
| Pingtung Branch | 1F., No.450, Zihyou Rd., Pingtung City, Pingtung County 900, Taiwan (R.O.C.) | +886-8-7383000 |
| Taitung Mini Branch | 1F., No.279, Jhongshan Rd., Taitung City, Taitung County 950, Taiwan (R.O.C.) | +886-8-9339898 |
| Hualien Branch | 1F., No.376, Jhongshan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.) | +886-3-8340566 |
| East Hualien Branch | 1F., No.1-7, Gongyuan Rd., Hualien City, Hualien County 970, Taiwan (R.O.C.) | +886-3-8351101 |

Overseas Service Outlets

Branch

| Units | Address | Tel | Fax |
|---|--|----------------|----------------|
| Hong Kong Branch | Suite 2801, 28/F., Two International Finance Centre, 8 Finance Street, Central, Hong Kong | 852-29161888 | 852-28109742 |
| Kowloon Branch | 20/F, Manhattan Place, No. 23 Wang Tai Road, Kowloon Bay, Kowloon, Hong Kong | 852-29161688 | 852-28050899 |
| Singapore Branch | 8 Marina View, #29-01, Asia Square Tower 1, Singapore 018960 | 65-63514888 | 65-65325999 |
| Shanghai Branch | 27F, Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai 200120, P.R.C. | 86-21-20805888 | 86-21-68778788 |
| New York Branch | 11F, #521 Fifth Avenue, New York, NY 10175, U.S.A. | 1-212-4578888 | 1-212-4576666 |
| New Delhi Branch | Upper Ground Floor, Birla Tower, 25 Barakhamba Road, New Delhi 110001, India | 91-11-43688888 | 91-11-43688873 |
| Sriperumbudur Branch | Plot No.42 (old No. 105) Chennai Bangalore Highways NH4, Sriperumbudur, Kancheepuram District, Tamil Nadu-602105, India | 91-44-66227700 | 91-44-66227799 |
| Ho Chi Minh City Branch | Unit 902-909, 9th Floor, Kumho Asiana Plaza Saigon, 39 Le Duan St., Dist. 1, HCMC, Vietnam | 84-8-39101888 | 84-8-39101999 |
| Tokyo Branch | Kioi Tower 28F, Tokyo Garden Terrace Kioicho, 1-3 Kioicho, Chiyoda-ku, Tokyo 102-0094, Japan | 81-3-32889888 | 81-3-35568892 |
| Guangzhou Branch | 6/F, International Finance Place, No.8 Huaxia Road, Pearl River New Town, Guangzhou 510623, P.R.C. | 86-20-38560388 | 86-20-38560333 |
| Shanghai Pilot Free Trade Zone Sub-Branch | Unit 01, 02, 12, 15th Floor, No.55 Jilong Rd, China(Shanghai) Pilot Free Trade Zone Shanghai 200131, P.R.C. | 86-21-20805888 | 86-21-50585112 |
| Xiamen Branch | Unit 2902A, 2903, 2904, 2905, No.29 North Donggang Rd., China (Fujian) Pilot Free Trade Zone, Xiamen Subdistrict, P.R.C. | 86-592-5669686 | 86-592-5668738 |

Subsidiary

| Units | Address | Tel | Fax |
|-------------------------------|--|----------------|----------------|
| The Tokyo Star Bank, Limited | 2-3-5 Akasaka, Minato-Ku, Tokyo, 107-8480, Japan | 81-3-35863111 | 81-3-35838224 |
| CTBC Bank (Philippines) Corp. | 16th to 19th Floors, Fort Legend Towers, 31st Street Corner 3rd Avenue, Bonifacio Global City, Taguig City, Philippines 1634 | 63-2-9889287 | 63-2-5767935 |
| CTBC Bank Corp. (Canada) | 1518 West Broadway, Vancouver, B.C., Canada, V6J 1W8 | 1-604-6833882 | 1-604-6833723 |
| CTBC Bank Corp. (USA) | 801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, U.S.A. | 1-310-7912828 | 1-424-2774698 |
| PT Bank CTBC Indonesia | Tamara Center, 15th-17th Fl., Jl Jenderal Sudirman Kav. 24, Jakarta, 12920, Indonesia | 62-21-25578787 | 62-21-30402286 |

Representative Office

| Units | Address | Tel | Fax |
|-----------------------------------|---|----------------|----------------|
| Bangkok Representative Office | Suite 803, 8F, GPF Witthayu, Tower A, 93/1 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand | 66-2-2543139 | 66-2-2566480 |
| Hanoi Representative Office | East-3002, 30th Floor, LOTTE Center Hanoi, No.54 Lieu Giai Street, Cong Vi Ward, Ba Dinh District, Hanoi, Vietnam | 84-4-38249088 | 84-4-38249099 |
| Los Angeles Representative Office | 17851 Colima Road, Suite A2, City of Industry, CA91748, U.S.A. | 1-626-8397660 | 1-626-9120868 |
| Beijing Representative Office | B-111, The Grand Pacific Building, 8a, Guanghua Rd., Chao Yang District, Beijing, P. R.C. 100026 | 86-10-65813700 | 86-10-65815701 |
| Kuala Lumpur Rep. Office | Lot 11-09, Level 11, Menara Hap Seng 2, Plaza Hap Seng, No. 1 Jalan Ramlee 50250 Kuala Lumpur, Malaysia | 60-3-20223299 | 60-3-20223277 |
| Sydney Rep. Office | Suite 2702, Level 27, 259 George Street, Sydney, NSW 2000, Australia | 61-2-92513655 | 61-2-92513644 |
| Yangon Rep. Office | Unit #506, No.53, Strand Road, Pabedan Township, Yangon, Myanmar | 95-1-2307348 | 95-1-2307347 |

**CTBC BANK CO., LTD.
AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL REPORTS

December 31, 2016 AND 2015

AND

INDEPENDENT AUDITORS'REPORT

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Telephone Number: 886-2-3327-7777

CTBC BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL REPORTS
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安侯建業聯合會計師事務所

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Independent Auditors' Report

To the Board of Directors of CTBC Bank Co., Ltd.:

Opinion

We have audited the consolidated financial statements of CTBC Bank Co., Ltd. (the Bank) and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and 2015, the consolidated statements of comprehensive income, changes in consolidated stockholders' equity and consolidated cash flows for the years ended December 31, 2016 and 2015, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of CTBC Bank Co., Ltd. and its subsidiaries as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, International Financial Reporting Standards (IFRS), International Accounting Standard (IAS), interpretations and pronouncements as accepted by Financial Supervisory Commission.

Basis for Opinion

We conducted our audit in accordance with the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of CTBC Bank Co., Ltd. and its subsidiaries in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

Emphasis of Matter

The judicial cases as stated in Note 9(D) are still under investigation by the judiciary, and the results remain uncertain. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Assessment of the fair value of financial instruments

Please refer to Note 4 (F) for the related accounting policies of the assessment of the fair value of financial instruments, Note 5 (C) for the accounting assumptions and estimation uncertainty, and Note 6 (AN) for the other details.

How the matter was addressed in our audit:

Parts of the financial instruments owned by the Bank and its subsidiaries as of December 31, 2016 were valued via evaluation model due to the lack of public transaction prices, and parts of the referred input values could not be obtained from the public market. Thus, it demands significant professional judgments from the management by using different valuation techniques and assumptions for input values. Therefore, the assessment of fair value of financial instruments is one of the key audit matters.

Our principal audit procedures included: testing the management's control procedures over measurement and disclosure of financial instruments, including evaluating how the management chooses the appropriate evaluation method and the prime parameter hypothesis, and confirming that the presentation and disclosure of financial instruments are in accordance with the International Financial Reporting Standards (IFRSs). For financial assets with active market prices, we used sampling test to assess the appropriateness of public quoted prices. As to financial assets using evaluation model to measure their fair value, we used sampling test to confirm the appropriateness of the evaluation method and the prime input values used by the management.

2. Impairment of loans and receivables

Please refer to Note 4 (F) for the related accounting policies of impairment of loans and receivables, Note 5 (A) for the accounting assumptions and estimation uncertainty, and Note 6 (H), (I) and (AN) for the other details.

How the matter was addressed in our audit:

The management assessed the impairment of loans and receivables by determining whether there is any observable evidence indicating impairment, and dividing them into collective assessment and individual assessment to measure them by using different impairment methods. For collective assessment, the impairment is calculated by establishing an impairment model and using the past loss experience on assets with similar credit risk characteristic to form basic estimation. For individual assessment, the measurement is based on expected future recoverable cash flows. The aforementioned measurement methods involved significant professional judgments and estimation by the management; therefore, the impairment of loans and receivables is one of the key audit matters.

Our principal audit procedures included: understanding the methodology and related control procedures on how the management assesses and measures the impairment amount of loans and receivables. For collective assessment, we assessed the impairment model adopted by the management and reviewed the appropriateness of the calculation of the impairment parameters (including probability of default rate and recovery rate) via sampling. For individual assessment, we used sampling test to assess the appropriateness of the estimation of future recoverable amounts and the value of collateral. Meanwhile, we assessed whether the allowance for loans and receivables meets the regulation requirement.

3. Assessment of goodwill impairment

Please refer to Note 4 (M) for the related accounting policies of goodwill impairment, Note 5 (B) for the accounting assumptions and estimation uncertainty, and Note 6 (O) for the other details.

How the matter was addressed in our audit:

The management assessed the goodwill impairment by evaluating the value in use of each cash-generating unit (CGU) and estimating the future cash flows, which require the management's significant professional judgments. Therefore, evaluating the goodwill impairment is one of the key audit matters.

Our principal audit procedures included: understanding the procedures of how the management performs the goodwill impairment test; assessing how the management identifies the CGU and the basis and assumptions of future cash flows estimation, which include the appropriateness of growth rate, discount rate and the accuracy of the calculations; comparing the results of past forecast and actual operating performance to assess the appropriateness of the method of predicting future cash flows.

Others

Individual financial statements of CTBC Bank Co., Ltd. were additionally prepared, and we have expressed an unqualified opinion on it for user reference.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, International Financial Reporting Standards (IFRS), International Accounting Standard (IAS), interpretations and pronouncements as accepted by Financial Supervisory Commission and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Bank and its subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including audit committee) are responsible for overseeing the Bank and its subsidiaries' financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of



China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and its subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and its subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Bank and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, performance of the group audit and developing a group audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are Chen, Chun-Kuang and Lee, Feng-Hui.

KPMG

Taipei, Taiwan, (Republic of China)
March 28, 2017

Notes to Readers

The accompanying consolidated financial reports are intended only to present the consolidated financial position, financial performance and cash flows in accordance with IFRSs accepted by the Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial reports are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.

CTBC BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

| | December 31, 2016 | | December 31, 2015 | | | December 31, 2016 | | December 31, 2015 | |
|---|-------------------------|------------|----------------------|------------|--|----------------------|-----------|----------------------|-----------|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents (Note 4 and 6(A)) | \$ 84,221,904 | 2 | 81,203,890 | 2 | | \$ 63,498,683 | 2 | 45,634,274 | 1 |
| Due from Central Bank and call loans to bank (Note 6(B) and 8) | 265,151,265 | 8 | 402,006,003 | 11 | | 6,940,305 | - | 19,735,029 | 1 |
| Financial assets measured at fair value through profit or loss (Note 4, 6(C) and 6(S), and 7) | 174,295,251 | 5 | 140,602,123 | 4 | | 92,157,985 | 3 | 127,592,578 | 4 |
| Available-for-sale financial assets—net (Note 4, 6(D) and 6(S), and 8) | 594,750,306 | 17 | 455,708,300 | 13 | | | | | |
| Derivative financial assets—hedging—net (Note 4 and 6(E)) | 415,342 | - | 107,526 | - | | 303,599 | - | 441,428 | - |
| Securities purchased under resale agreements (Note 4 and 6(F)) | 237,500 | - | - | - | | 39,953,459 | 1 | 50,648,083 | 1 |
| Receivables—net (Note 4, 6(G) and 6(I), 7 and 8) | 104,383,342 | 3 | 146,674,654 | 4 | | 65,835,489 | 2 | 60,103,477 | 2 |
| Current income taxes assets (Note 4) | 684,466 | - | 900,269 | - | | 2,354,101 | - | 2,981,280 | - |
| Loans—net (Note 4, 6(H) and 6(I), and 7) | 2,049,562,112 | 58 | 2,011,474,309 | 57 | | 2,762,677,752 | 78 | 2,734,383,611 | 78 |
| Held-to-maturity financial assets—net (Note 4, 6(J) and 6(S), and 8) | 126,054,037 | 4 | 147,667,106 | 4 | | 71,405,898 | 2 | 81,270,573 | 2 |
| Investment under equity method—net (Note 4 and 6(K)) | 2,215,028 | - | 2,220,425 | - | | 152,966,481 | 4 | 151,058,510 | 4 |
| Other financial assets—net (Note 4, 6(L) and 6(L), and 8) | 18,456,362 | 1 | 17,643,309 | 1 | | 5,875,438 | - | 6,033,475 | - |
| Premises and equipment—net (Note 4 and 6(N)) | 46,056,794 | 1 | 49,743,813 | 2 | | 369,704 | - | 469,291 | - |
| Investment property—net (Note 4 and 6(M)) | 4,450,140 | - | - | - | | 6,157,844 | - | 5,374,246 | - |
| Intangible assets—net (Note 4 and 6(O)) | 14,800,180 | - | 14,788,651 | 1 | | | | | |
| Deferred income tax assets (Note 4 and 6(AA)) | 8,145,564 | - | 8,839,447 | - | | | | | |
| Other assets—net (Note 4, 6(P) and 8) | 28,792,610 | 1 | 39,647,893 | 1 | | | | | |
| TOTAL ASSETS | \$ 3,522,673,203 | 100 | 3,519,217,718 | 100 | | 3,269,576,358 | 92 | 3,285,725,805 | 93 |
| | | | | | | | | | |
| LIABILITIES AND EQUITY | | | | | | | | | |
| Liabilities: | | | | | | | | | |
| Deposits from Central Bank and other banks (Note 6(Q)) | | | | | | | | | |
| Due to Central Bank and other banks (Note 6(R)) | | | | | | | | | |
| Financial liabilities measured at fair value through profit or loss (Note 4, 6(C) and 7) | | | | | | | | | |
| Derivative financial liabilities—hedging—net (Note 4 and 6(E)) | | | | | | | | | |
| Securities sold under repurchase agreements (Note 4, and 6(S)) | | | | | | | | | |
| Payables (Note 6(T) and 7) | | | | | | | | | |
| Current income tax liabilities (Note 4) | | | | | | | | | |
| Deposits and remittances (Note 6(U) and 7) | | | | | | | | | |
| Financial debentures (Note 6(C), 6(E) and 6(V)) | | | | | | | | | |
| Other financial liabilities (Note 6(W)) | | | | | | | | | |
| Provisions (Note 4, 6(X) and 6(Z)) | | | | | | | | | |
| Deferred tax liabilities (Note 4 and 6(AA)) | | | | | | | | | |
| Other liabilities (Note 6(Y)) | | | | | | | | | |
| Total Liabilities | | | | | | | | | |
| Stockholders' Equity - Parent Company | | | | | | | | | |
| Capital stock: | | | | | | | | | |
| Common stock (Note 6(AC)) | | | | | | | | | |
| Capital surplus (Note 6(AC)): | | | | | | | | | |
| Capital premium | | | | | | | | | |
| Others | | | | | | | | | |
| Retained earnings: | | | | | | | | | |
| Legal reserve | | | | | | | | | |
| Special reserve | | | | | | | | | |
| Undistributed earnings (Note 6(AC)) | | | | | | | | | |
| Other equity interest (Note 6(AC)) | | | | | | | | | |
| Non-controlling interest | | | | | | | | | |
| Total Equity | | | | | | | | | |
| TOTAL LIABILITIES AND EQUITY | \$ 3,522,673,203 | 100 | 3,519,217,718 | 100 | | 3,269,576,358 | 92 | 3,285,725,805 | 93 |

The accompanying notes are an integral part of the consolidated financial reports.

CTBC BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | For the years ended December 31 | | | | Change % |
|---|---------------------------------|------|--------------|------|----------|
| | 2016 | | 2015 | | |
| | Amount | % | Amount | % | |
| Interest income (Note 6(AG)) | \$ 65,265,705 | 74 | 63,933,741 | 69 | 2 |
| Less: Interest expenses (Note 6(AG)) | (17,942,913) | (20) | (20,859,945) | (23) | (14) |
| Net interest income (Note 6(AG)) | 47,322,792 | 54 | 43,073,796 | 46 | 10 |
| Net income except interest | | | | | |
| Service fee and commission income (Note 6(AH)) | 32,186,852 | 36 | 34,694,886 | 38 | (7) |
| Gains on financial assets or liabilities measured at fair value through profit or loss (Note 6(AI)) | 6,724,284 | 8 | 11,207,543 | 12 | (40) |
| Realized gains on available-for-sale financial assets | 1,871,638 | 2 | 1,339,931 | 2 | 40 |
| Realized gain on held-to-maturity financial assets | 505 | - | 409 | - | 23 |
| Foreign exchange gains (losses) | 1,845,567 | 2 | (4,387,604) | (5) | 142 |
| Impairment loss on assets | (127,155) | - | (67,391) | - | (89) |
| Proportionate share of gains from associates or joint ventures under equity method (Note 6(K)) | 80,760 | - | 89,166 | - | (9) |
| Other net non-interest income | 745,523 | 1 | 2,040,712 | 2 | (63) |
| Gains on disposal of property—assets held for sale | - | - | 10,229,800 | 11 | (100) |
| Losses on retirement of assets | (31,378) | - | (3,071,131) | (3) | 99 |
| Public-welfare lottery payment | (2,700,000) | (3) | (2,700,000) | (3) | - |
| Net Revenue | 87,919,388 | 100 | 92,450,117 | 100 | (5) |
| Provisions for bad debt expenses and guarantee reserve (Note 6(I)) | (5,813,296) | (6) | (1,158,337) | (1) | 402 |
| Operating expenses: | | | | | |
| Employee benefits expenses (Note 6(AJ)) | (28,130,690) | (32) | (26,359,037) | (29) | 7 |
| Depreciation and amortization expenses (Note 6(AK)) | (3,225,452) | (4) | (2,979,215) | (3) | 8 |
| Other general and administrative expenses (Note 6(AM)) | (21,823,272) | (25) | (22,164,127) | (24) | (2) |
| Total operating expenses | (53,179,414) | (61) | (51,502,379) | (56) | 3 |
| Net Income Before Tax from Continuing Operations | 28,926,678 | 33 | 39,789,401 | 43 | (27) |
| Income tax expenses (Note 6(AA)) | (5,830,481) | (7) | (5,544,872) | (6) | (5) |
| Net Income | 23,096,197 | 26 | 34,244,529 | 37 | (33) |
| Other comprehensive income: | | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Remeasurement gains (losses) related to defined benefit plans | 31,649 | - | (632,497) | - | 105 |
| Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk | (1,931,883) | (2) | 1,150,729 | 1 | (268) |
| Proportionate share of other comprehensive losses from associates or joint ventures under the equity method- items that will not be reclassified subsequently to profit or loss | (2,222) | - | (3,075) | - | 28 |
| Income tax related to items that will not be reclassified to profit or loss | (6,630) | - | 110,393 | - | (106) |
| Subtotal | (1,909,086) | (2) | 625,550 | 1 | (405) |
| Items that are or may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences of overseas subsidiaries' financial reports translation | (2,716,858) | (3) | 1,914,014 | 2 | (242) |
| Unrealized valuation losses on available-for-sale financial assets | (2,245,642) | (2) | (304,720) | - | (637) |
| Proportionate share of other comprehensive income from associates or joint ventures under the equity method- items that are or may be reclassified to profit or loss | (29,705) | - | 41,367 | - | (172) |
| Income tax related to items that are or may be reclassified to profit or loss | 410,026 | - | 174,308 | - | 135 |
| Subtotal | (4,582,179) | (5) | 1,824,969 | 2 | (351) |
| Other comprehensive (losses) income (net amount after tax) | (6,491,265) | (7) | 2,450,519 | 3 | (365) |
| Total Comprehensive Income | \$ 16,604,932 | 19 | 36,695,048 | 40 | (55) |
| Net Income Attributable to: | | | | | |
| Parent company | \$ 23,092,164 | 26 | 31,906,816 | 34 | (28) |
| Equity attributable to former owner of business combination under common control | - | - | 2,333,452 | 3 | (100) |
| Non-controlling interest | 4,033 | - | 4,261 | - | (5) |
| | \$ 23,096,197 | 26 | 34,244,529 | 37 | |
| Comprehensive Income Attributable to: | | | | | |
| Parent company | \$ 16,603,126 | 19 | 34,363,833 | 37 | (52) |
| Equity attributable to former owner of business combination under common control | - | - | 2,330,909 | 3 | (100) |
| Non-controlling interest | 1,806 | - | 306 | - | 490 |
| | \$ 16,604,932 | 19 | 36,695,048 | 40 | |
| Earnings per share (unit: NT dollars) (Note 6(AF)) | \$ 1.78 | | 2.64 | | |

The accompanying notes are an integral part of the consolidated financial reports.

CTBC BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | Stockholders' Equity - Parent company | | | | | | | | | | | | | |
|---|---------------------------------------|-------------------|-----------------|---------------|-----------------|------------------------|--|--|--|---------------------------------------|---------|---|--------------------------|--------------|
| | Capital stock | Retained earnings | | | | | Exchange differences of overseas subsidiaries' financial reports translation | Unrealized (losses) gains on available-for-sale financial assets | Other equity interest | | | Equity attributable to former owner of business combinations under common control | Non-controlling interest | Total equity |
| | | Common stock | Capital surplus | Legal reserve | Special reserve | Undistributed earnings | | | Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk | Stockholders' equity - parent company | | | | |
| Balance—January 1, 2015 | \$ 91,092,775 | 26,182,059 | 44,370,246 | 4,814,487 | 34,001,789 | (3,537,116) | (775,636) | 464,012 | 196,612,616 | 2,717,296 | 80,681 | 199,410,593 | | |
| Net income | - | - | - | - | 31,906,816 | - | - | - | 31,906,816 | 2,333,432 | 4,261 | 34,244,529 | | |
| Other comprehensive (losses) income | - | - | - | - | (525,214) | 1,817,415 | 14,087 | 1,150,729 | 2,457,017 | (2,543) | (3,955) | 2,450,519 | | |
| Total comprehensive Income | - | - | - | - | 31,381,602 | 1,817,415 | 14,087 | 1,150,729 | 34,363,833 | 2,330,909 | 306 | 36,695,048 | | |
| Earnings appropriation and distribution | | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 10,278,654 | - | (10,278,654) | - | - | - | - | - | - | - | | |
| Special reserve appropriated | - | - | - | 10,369,908 | (10,369,908) | - | - | - | - | - | - | - | | |
| Cash dividends - common share | - | - | - | - | - | - | - | - | - | (2,613,728) | - | (2,613,728) | | |
| Stock dividends - common share | 14,113,004 | - | - | - | (14,113,004) | - | - | - | - | - | - | - | | |
| Reversal of special reserve | - | - | - | (760,162) | 760,162 | - | - | - | - | - | - | - | | |
| Reorganization | 523,500 | 1,910,977 | - | - | - | - | - | - | 2,434,477 | (2,434,477) | - | - | | |
| Balance—December 31, 2015 | 105,729,279 | 28,093,036 | 54,648,500 | 14,424,233 | 31,381,987 | (1,719,701) | (761,549) | 1,814,741 | 233,410,926 | - | 80,987 | 233,491,913 | | |
| Net income | - | - | - | - | 23,092,164 | - | - | - | 23,092,164 | - | 4,033 | 23,096,197 | | |
| Other comprehensive income (losses) | - | - | - | - | 22,764 | (2,607,009) | (1,972,910) | (1,931,883) | (6,489,038) | - | (2,227) | (6,491,265) | | |
| Total comprehensive Income (losses) | - | - | - | - | 23,114,928 | (2,607,009) | (1,972,910) | (1,931,883) | 16,603,126 | - | 1,806 | 16,604,932 | | |
| Earnings appropriation and distribution | | | | | | | | | | | | | | |
| Legal reserve appropriated | - | - | 10,272,080 | - | (10,272,080) | - | - | - | - | - | - | - | | |
| Stock dividends - common share | 24,092,108 | - | - | - | (24,092,108) | - | - | - | - | - | - | - | | |
| Reversal of special reserve | - | - | - | (2,982,232) | 2,982,232 | - | - | - | - | - | - | - | | |
| Capital increase by cash | 1,304,348 | 1,695,632 | - | - | - | - | - | - | 3,000,000 | - | - | 3,000,000 | | |
| Balance—December 31, 2016 | \$ 131,125,736 | 29,788,688 | 64,920,980 | 11,442,001 | 23,114,959 | (4,326,710) | (2,734,459) | (317,142) | 253,014,052 | - | 82,793 | 253,096,845 | | |

The accompanying notes are an integral part of the consolidated financial reports.

CTBC BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | For the years ended December 31 | |
|---|--|---------------|
| | 2016 | 2015 |
| Cash Flows from Operating Activities: | | |
| Net Income Before Tax | \$ 28,926,678 | 39,789,401 |
| Adjustments: | | |
| Income and expense items | | |
| Depreciation expenses | 2,133,305 | 1,928,154 |
| Amortization expenses | 1,092,147 | 1,051,061 |
| Provision for bad debt expenses | 5,813,296 | 1,158,337 |
| Net losses (gains) on financial assets or liabilities measured at fair value through profit or loss | 2,182,408 | (443,810) |
| Interest expenses | 17,942,913 | 20,859,945 |
| Interest income | (65,265,705) | (63,933,741) |
| Dividend income | (383,063) | (503,471) |
| Net changes in other provisions | (18,643) | (11,070) |
| Losses on disposal of foreclosed properties | 2,090 | 314 |
| Proportionate share of gains from associates or joint ventures under the equity method | (80,760) | (89,166) |
| Losses on disposal and retirement of premises and equipment | 62,854 | 2,358,231 |
| Gains on disposal of asset held for sale | - | (10,229,800) |
| Gains on disposal of intangible assets | (10,292) | - |
| Losses on disposal of investment under cost method | 5,748 | - |
| Impairment loss on financial assets | 53,900 | 70,701 |
| Impairment loss on (gain on reversal of) non-financial assets | 73,255 | (3,310) |
| Other adjustments | (942,962) | 1,004,622 |
| Subtotal of income and expense items | (37,339,509) | (46,783,003) |
| Changes in Operating Assets and Liabilities: | | |
| Net Changes in Operating Assets: | | |
| Decrease(increase) in due from Central Bank and call loans to bank | 19,097,410 | (30,476,885) |
| Increase in financial assets measured at fair value through profit or loss | (37,204,717) | (34,151,679) |
| (Increase) decrease in hedging derivative financial assets | (308,816) | 1,391,960 |
| Decrease in receivables | 27,572,280 | 28,015,559 |
| Increase in loans | (42,007,995) | (192,784,650) |
| (Increase) decrease in available-for-sale financial assets | (141,035,581) | 94,989,270 |
| Decrease (increase) in held-to-maturity financial assets | 21,609,548 | (76,512,779) |
| (Increase) decrease in other financial assets | (424,945) | 3,391,425 |
| Net Changes in Operating Assets | (152,702,816) | (206,137,779) |
| Net Changes in Operating Liabilities: | | |
| Increase (decrease) in deposits from Central Bank and other banks | 17,864,409 | (4,300,154) |
| (Decrease) increase in financial liabilities measured at fair value through profit or loss | (24,930,325) | 26,353,215 |
| Decrease in hedging derivative financial liabilities | (137,829) | (474,894) |
| Increase (decrease) in payables | 8,976,551 | (11,354,002) |
| Increase in deposits and remittances | 28,294,141 | 312,484,641 |
| Increase (decrease) in other financial liabilities | 2,141,405 | (17,004,853) |
| (Decrease) increase in employee benefits provision | (156,918) | 511,756 |
| Net Changes in Operating Liabilities | 32,051,434 | 306,215,709 |
| Net Changes in Operating Assets and Liabilities | (120,651,382) | 100,077,930 |
| Sum of Adjustments | (157,990,891) | 53,294,927 |
| Cash (Used in) Provided by Operating Activities | (129,064,213) | 93,084,328 |
| Interest received | 65,253,253 | 64,766,276 |
| Dividend received | 466,574 | 572,110 |
| Interest paid | (21,017,752) | (25,860,363) |
| Income tax paid | (5,544,897) | (5,557,186) |
| Net Cash (Used in) Provided by Operating Activities | (89,907,035) | 127,005,165 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS(CONT'D)
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | For the Years ended December 31 | |
|--|--|---------------------|
| | 2016 | 2015 |
| Cash Flows from Investing Activities: | | |
| Purchase of financial assets carried at cost | \$ (82,263) | (190,164) |
| Purchase of financial assets under equity method | (27,053) | (357,238) |
| Disposal of financial assets under equity method | - | 232,833 |
| Purchase of premises and equipment | (3,246,229) | (9,394,853) |
| Disposal of premises and equipment | 14,021 | 1,149,964 |
| Purchase of intangible assets | (1,056,740) | (1,037,356) |
| Disposal of intangible assets | 11,231 | 68,094 |
| Disposal of foreclosed properties | 20,088 | 12,141 |
| Decrease in receivables | 12,979,683 | 813,854 |
| Decrease (increase) in other assets | 8,560,502 | (12,078,548) |
| Disposal of assets held for sale | - | 13,640,153 |
| Net Cash Provided by (Used in) Investing Activities | 17,173,240 | (7,141,120) |
| Cash Flows from Financing Activities: | | |
| Decrease in due to Central Bank and other banks | (13,694,724) | (34,352,114) |
| Issuance of financial debentures | - | 17,000,000 |
| Repayments of financial debentures | (45,284,127) | (34,157,420) |
| Decrease in securities sold under repurchase agreements | (10,714,624) | (9,582,693) |
| Increase in financial liabilities designated as at fair value through profit or loss, upon initial recognition | 25,177,620 | 10,057,737 |
| Decrease in payables | (158,228) | (475,647) |
| Increase (decrease) in other liabilities | 784,629 | (644,739) |
| Cash dividends issuance | - | (2,613,728) |
| Capital increase by cash | 3,000,000 | - |
| Net Cash Used in Financing Activities | (40,889,454) | (54,768,604) |
| Effect of exchange rate changes on cash and cash equivalents | (878,565) | 1,540,613 |
| (Decrease) increase in Cash and Cash Equivalents | (114,501,814) | 66,636,054 |
| Cash and Cash Equivalents, at the Beginning of the Period | 404,772,423 | 338,136,369 |
| Cash and Cash Equivalents, at the End of the Period | \$ 290,270,609 | 404,772,423 |
| Components of cash and cash equivalents: | | |
| Cash and cash equivalents recognized in the balance sheet | \$ 84,221,904 | 81,203,890 |
| Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents | 205,811,205 | 323,568,533 |
| Securities purchased under resell agreements which meet IAS 7 definition of cash and cash equivalents | 237,500 | - |
| Cash and Cash Equivalents, at the End of the Period | \$ 290,270,609 | 404,772,423 |

The accompanying notes are an integral part of the consolidated financial reports.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL REPORTS
December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Stated)

1. HISTORY AND ORGANIZATION

CTBC Bank Co., Ltd. (the “Bank”) was originally incorporated in March 1966 as “China Securities Investment Corporation.” In December 1970, the Bank changed its organization and was renamed China Trust Co., Ltd. Twenty-one years later, on July 2, 1992, it was approved to conduct commercial banking business and changed its name to CTBC Bank Co., Ltd.

In order to restructure overall resources, lower costs, expand the business scope, enhance competitiveness, and improve the quality of financial services and operating efficiency, on September 30, 2003, the Bank’s board of directors resolved to acquire Grand Commercial Bank, a wholly owned subsidiary of CTBC Financial Holding Co., Ltd., and to merge with it, with the Bank as the surviving entity. The acquisition date of record was December 1, 2003.

On August 1, 1991, Grand Commercial Bank was approved to conduct commercial banking business, and it began operations on December 30, 1991. As of November 30, 2003, Grand Commercial Bank had a business department, a trust department, a domestic banking unit, an offshore banking unit, and 42 domestic branches.

In order to develop the business units, enhance competitiveness, and provide customers with more convenient and varied financial services, the Bank assumed the outstanding assets, liabilities and operations of Fengshan Credit Cooperative (“FSCC”) and Enterprise Bank of Hualien (“EBH”) on October 1, 2004, and September 8, 2007, respectively.

In order to enhance the effectiveness of the overall operation of CTBC Financial Holding Company and to reduce operational risk and cost, the Bank merged with Chinatrust Bills Finance Corp., a wholly owned subsidiary of CTBC Financial Holding Co., Ltd., by issuing common shares in a 0.77-for-1 exchange for the shares of Chinatrust Bills Finance Corp. on April 26, 2008. The Bank is the surviving entity from this merger.

In order to restructure overall resources and fulfill operating efficiency, the Bank merged with CTBC Insurance Brokers Co., Ltd., a wholly owned subsidiary of CTBC Financial Holding Co., Ltd. by issuing common shares in a 10.47-for-1 exchange for the shares of CTBC Insurance Brokers Co., Ltd. on November 30, 2015. The Bank is the surviving entity from this merger. Please refer to Note12 (C) for more information.

The Bank has been approved to conduct business in the following areas:

- (A) Checking accounts, savings accounts, and time deposits;
- (B) Short, medium, and long-term loans;
- (C) Note discounting;
- (D) Investment in marketable securities;
- (E) Domestic foreign exchange business;

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (F) Banker's acceptances;
- (G) Issuance of domestic standby letters of credit;
- (H) Domestic endorsement guarantees business;
- (I) Collection and payment agency;
- (J) Agency for government bonds, treasury bills, corporate bonds, and securities transactions;
- (K) Agency transactions and proprietary trading of short-term bills;
- (L) Credit card-related products;
- (M) Agency for sale of gold nuggets, gold coins, and silver coins;
- (N) Financial derivative businesses as approved by the Financial Supervisory Commission;
- (O) Custody and warehouse services;
- (P) Renting of safe-deposit boxes;
- (Q) Financial advisory services on corporate banking;
- (R) Foreign exchange business in connection with exports and imports, fund remittance and repatriation, foreign currency deposits and loans; guarantee for secured repayment, and attestation on exports and imports;
- (S) Non-discretionary trust funds for investment in foreign and domestic marketable securities;
- (T) Account receivable factoring business as approved by the Financial Supervisory Commission;
- (U) Endorsement and issuance of corporate bonds;
- (V) Issuance of financial debentures;
- (W) Underwriting, agency transactions, and proprietary trading of marketable securities;
- (X) Proprietary trading of government bonds;
- (Y) All businesses related thereto as specified in the license or other agency services as approved by the Financial Supervisory Commission;
- (Z) Trust and fiduciary services;
- (AA) Margins on foreign currency transactions;
- (AB) Issuance of cash value cards;

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(AC) Public welfare lottery sales;

(AD) Futures proprietary trading business; and

(AE) Other businesses as approved by the Financial Supervisory Commission.

The Bank's headquarters coordinate corporate-wide operations and establishes domestic and overseas banking units to expand business. As of December 31, 2016, the Bank had 149 domestic branches, 11 foreign branches and 7 overseas representative offices, whereas its subsidiaries had 89 overseas offices.

The Bank's parent company and ultimate parent company is CTBC Financial Holding Co., Ltd.

2. APPROVAL DATE AND PROCEDURES OF THE FINANCIAL REPORTS

The consolidated financial reports were approved by the board of directors on March 28, 2017.

3. NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(A) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commissions, R.O.C ("the FSC") but not yet in effect.

According to Jin-Kuan-Zheng-Zi No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board ("IASB") before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, amendments and interpretations are as follows:

| Newly issued/ revised accounting standards and interpretations | Effective dates per International Accounting Standards Board |
|---|---|
| Amendments to IFRS 10, IFRS 12 and IAS 28 - Amended by "Investment Entities: Applying the Consolidation Exception" | January 1, 2016 |
| Amendments to IFRS 11 - Amended by "Accounting for Acquisitions of Interests in Joint Operations" | January 1, 2016 |
| IFRS 14 "Regulatory Deferral Accounts" | January 1, 2016 |
| Amendment to IAS 1 - Amended by "Disclosure Initiative" | January 1, 2016 |
| Amendments to IAS 16 and IAS 38 - Amended by "Clarification of Acceptable Methods of Depreciation and Amortization" | January 1, 2016 |
| Amendments to IAS 16 and IAS 41 - Amended by "Agriculture: Bearer Plants" | January 1, 2016 |
| Amendments to IAS 19 - Amended by "Defined Benefit Plans: Employee Contributions" | July 1, 2014 |
| Amendment to IAS 27 - Amended by "Equity Method in Separate Financial Statements" | January 1, 2016 |
| Amendments to IAS 36 - Amended by "Recoverable Amount Disclosures for Non-Financial Assets" | January 1, 2014 |
| Amendments to IAS 39 - Amended by "Novation of Derivatives and Continuation of Hedge Accounting" | January 1, 2014 |
| Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycle | July 1, 2014 |
| Annual improvements to IFRSs 2012-2014 Cycle | January 1, 2016 |
| IFRIC 21 "Levies" | January 1, 2014 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Except for the following items, the Bank believes that the adoption of the above IFRSs would not have a material impact on the financial statements:

Amendment to IAS 36 – Amended by “Recoverable amount disclosures for non-financial asset”.

The standard newly adopted rules for anon-financial asset, with its recoverable amount and impairment loss has been recognized based on fair value less costsof sale, should disclose its level of fair value hierarchy and its critical assumption (second or third level) of fair value measurement. The Bank and its subsidiaries will increase disclosure in the effect on the financial reports according to the standard.

(B) Newly released or amended standards and interpretations not yet endorsed by the FSC

Listed as below were the new standards and amendments issued by the IASB, but not yet endorsed by the FSC. As of the report date, except for IFRS 9 and IFRS 15 that will be effective from January 1, 2018, the FSC has not announced the effective date for the others.

| Newly issued/ revised accounting standards and interpretations | Effective dates per International Accounting Standards Board |
|--|---|
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| Amendments to IFRS 10 and IAS 28 - Amended by "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture" | Effective date to be determined by IASB |
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| Amendment to IFRS 2 - Amended by "Clarifications of Classification and Measurement of Share-Based Payment Transactions" | January 1, 2018 |
| Amendment to IFRS 15 - Amended by "Clarifications of IFRS 15" | January 1, 2018 |
| Amendment to IAS 7 - Amended by "Disclosure Initiative" | January 1, 2017 |
| Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses" | January 1, 2017 |
| Amendments to IFRS 4 "Insurance Contracts" (Applying to IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts) | January 1, 2018 |
| Annual Improvements to IFRSs 2014–2016 Cycle: | |
| IFRS 12 "Disclosure of Interests in Other Entities" | January 1, 2017 |
| IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures " | January 1, 2018 |
| IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | January 1, 2018 |
| Amendments to IAS 40- "Transfers of Investment Property" | January 1, 2018 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Newly released standards which have potential impact of the Bank and its subsidiaries are as follows:

| Issuance / Release Dates | Newly issued / revised accounting standards | Content of amendment |
|------------------------------------|--|---|
| May 28, 2014 April 12, 2016 | IFRS 15 "Revenue from Contracts with Customers" | <p>IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts", and a number of revenue-related interpretations.</p> <p>The amendments issued on April 12, 2016, clarify how to identify performance obligations in a contract; determine whether a company is a principal or an agent; account for a license for intellectual property (IP); and apply transition requirements.</p> |
| November 19, 2013 July 24, 2014 | IFRS 9 "Financial Instruments" | <p>The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> • Classification and measurement: Financial assets are identified by contractual cash flow characteristics and the entity's business model for managing assets. They are classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, and financial assets at fair value through profit or loss. Financial liabilities designated at fair value through profit or loss caused by changes in fair value resulting from changes in its credit risk are recognized in other comprehensive income. • Impairment: The new expected loss model will replace the current incurred loss model. • Hedge accounting: Using more principle based requirements that aligns the accounting treatment with risk management activities. This includes modifying, keeping or ceasing some of the hedge accounting rules and allowing more hedged items to qualify for hedge accounting. |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Issuance / Release Dates | Newly issued / revised accounting standards | Content of amendment |
|---------------------------------|--|---|
| January 13, 2016 | IFRS 16 "Leases" | <p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> For a contract that is, or contains, a lease, the lessee shall recognize a right-of-use asset and a lease liability in the balance sheet. A lessee's expenses shall be evaluated from summation of the depreciation charge for the right-of use asset and interest expense on the lease liability during the lease term. A lessor classifies a lease as either a finance lease or an operating lease, and therefore, accounting treatment remains similar to IAS 17 "Leases". |
| January 29, 2016 | Amendment to IAS 7-Amended by "Disclosure Initiative" | The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes (e.g., exchange gains or losses). |
| December 8, 2016 | IFRIC 22 "Foreign Currency Transactions and Advance Consideration" | IFRIC 22 clarifies the transaction date used to determine the exchange rate. The transaction date is the date on which the company initially recognizes the prepayment or deferred income arising from the advance consideration. |
| December 8, 2016 | Amendments to IAS 40-"Transfer of Investment Property " | The amendments specify that an entity shall transfer a property to, or from, investment property when, and only when, there is an evidence of a change in use. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. Meanwhile, the list of evidence in paragraph 57 was modified. |

The impact of applying new standards on the financial position and financial performance of the Bank and its subsidiaries is under evaluation. Once the evaluation is completed, the Bank and its subsidiaries will disclose the effect on the financial reports.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This report was originally prepared in Chinese language. When conflicts or ambiguities arise in interpretations between the two versions, the Chinese version shall prevail.

(A) Assertion of compliance

The consolidated financial reports were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, IFRSs, IAS, interpretations and pronouncements as accepted by FSC ("IFRSs as accepted by FSC").

(B) Basis of compilation

The consolidated financial reports have been prepared on a historical cost basis except for the following material items in the statement of financial position:

- (a) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- (b) Available-for-sale financial assets measured at fair value;
- (c) Hedging derivative financial instruments measured at fair value;
- (d) Cash-settled share-based payment agreements liability measured at fair value; and
- (e) Defined benefit assets, which are recognized as the net amount of pension plan assets plus unrecognized prior service cost and unrecognized actuarial losses, minus unrecognized actuarial gains and present value of defined benefits obligation.

(C) Basis of consolidation

(a) Basis of compilation for consolidated financial reports

The consolidated financial reports encompass the Bank itself and controlled entities. All significant intra-group transactions are written-off.

- (b) The control of a special purpose entity ("SPE") by the Bank and its subsidiaries may be indicated if the following criteria are met simultaneously.
 - 1. The entity has powers to obtain the majority of the benefits of the SPE's activities through voting rights or other rights;
 - 2. By having a right to the majority of the SPE's benefits, the entity is exposed to the SPE's business risks;

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

3. The entity is capable of using its leverage over the SPE to influence the benefits of the SPE.

(c) Subsidiaries and special purpose entities included in the consolidated financial reports:

| Name of Investor Company | Name of Subsidiary | Primary Business | Percentage of Ownership | |
|---------------------------|---|--|-------------------------|-------------------|
| | | | December 31, 2016 | December 31, 2015 |
| CTBC Bank Co., Ltd. | CTBC Bank (Philippines) Corp. | Primarily engages in commercial banking and financing business | 99.60% | 99.60% |
| " | PT Bank CTBC Indonesia | Primarily engages in commercial banking and financing business | 99.00% | 99.00% |
| " | CTBC Bank Corp.(Canada) | Primarily engages in commercial banking and financing business | 100.00% | 100.00% |
| " | The Tokyo Star Bank, Ltd. | Primarily engages in commercial banking and financing business | 100.00% | 100.00% |
| " | CTBC Capital Corp. | Investment business | 100.00% | 100.00% |
| CTBC Capital Corp. | CTBC Bank Corp. (USA) | Primarily engages in commercial banking and financing business | 100.00% | 100.00% |
| The Tokyo Star Bank, Ltd. | Tokyo Star Business Finance, Ltd. (Note1) | Financing and assurance business | - % | 100.00% |
| " | TSB Servicer, Ltd | Debt management business | 100.00% | 100.00% |
| " | TSB Capital, Ltd (Renamed to Tokyo Star Business Finance, Ltd.)(Note 1) | Financing and assurance business | 100.00% | 100.00% |
| " | Pecuniary Trust Contract (Note 2) | Mortgage management / Collection NPL | - % | - % |
| " | Credit Linked Notes (Note 2) | A security with an embedded credit default swap | - % | - % |
| " | Asset-back Securities (Note 2) | Consumer loan management | - % | - % |

Note 1 : In order to fulfill operating efficiency and enhance expanding business, TSB Capital, Ltd. merged with Tokyo Star Business Finance, Ltd. on February 1, 2016. Tokyo Star Business Finance, Ltd. was dissolved, TSB Capital, Ltd. is the surviving entity and renamed to Tokyo Star Business Finance, Ltd.

Note 2 : The reason the listed entities are included in the consolidated financial reports of the Bank and its subsidiaries is because the Bank and its subsidiaries have leverage over these entities through direct or indirect investment, voting rights of these entities, and rights to either benefit from the majority of these entities' profits or sustain the risks. As of December 31, 2016, the Bank and its subsidiaries have not, either under the terms of any contractual arrangements or non-contractual arrangements, provided financial or other support to its special purpose entities.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) Below are investees excluded in the consolidated financial reports while the Bank has de facto control or over 50% holdings:

| Name of Investor Company | Name of Subsidiary | Primary Business | Percentage of Ownership | | Description |
|--------------------------|---|---|-------------------------|-------------------|--|
| | | | December 31, 2016 | December 31, 2015 | |
| CTBC Bank Co., Ltd. | GCB Finance (HK) Limited | Corporate loans and investment business | - % | - % | The company has been liquidated in 2015. |
| Note | Hu- Yi Solution Corp. (Shanghai) (Note) | Information service | - % | - % | " |

Note: The Bank conducts no direct investment toward this entity; however, the entity fulfills the definition of “control of an investee” specified in IFRS 10.

(D) Foreign currency

- (a) A foreign currency transaction, which is denominated or requires settlement in a foreign currency, shall be recorded on initial recognition in the functional currency by applying the foreign currency spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
- (b) At each balance sheet date, foreign currency monetary items shall be translated using the closing rate. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.
- (c) Foreign currency differences arising on the settlement of a foreign currency transaction are recognized in current profit or loss. Foreign currency differences arising on the retranslation of monetary items, except for differences arising on the retranslation of monetary items designated as hedging instruments in a hedge of the net investments in foreign operations or in a qualifying cash flow hedge are recognized directly in other comprehensive income, are recognized in profit or loss when it incurred.
- (d) When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange difference of that gain or loss shall be recognized in other comprehensive income. Otherwise, when a gain or loss on a non-monetary item is recognized in profit or loss, any exchange difference of that gain or loss shall be recognized in profit or loss.
- (e) Functional currency and presentation currency

The functional currency of the Bank and its subsidiaries is the currency of the primary economic environment in which they operate. The financial reports are presented in New Taiwan Dollars, the functional currency of the Bank.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(E) Cash and cash equivalents

The statements of cash flows are compiled based upon cash and cash equivalents. Cash comprises cash on hand, savings accounts, checking accounts, and unrestricted time deposits or negotiable certificates of deposit which may be terminated anytime without impairing the principal. Cash equivalents consist of short-term and highly liquid investments that are readily convertible to known amounts of cash and will mature within a short period so that interest rate fluctuations have little effect on their values. Cash equivalents include short-term bills with maturities within three months from the investment date.

Cash and cash equivalents comprise time deposits that are used by the Bank and its subsidiaries in the management of its short-term cash commitments and are not for investment or other purposes. Additionally, the aforementioned deposits are readily convertible to fixed amount of cash and are subject to an insignificant risk of changes in their fair value.

(F) Financial instruments

(a) Financial assets

Financial assets held by the Bank and its subsidiaries are recorded on the trading date. Except for financial instruments classified as held for trading, other financial instruments are initially recognized at acquiring or issuing cost plus transaction costs. Upon disposition, the cost of sale of equity securities is determined by the moving-average method, and the cost of sale of debt securities is determined by the first-in, first-out (FIFO) method.

1. Financial assets measured at fair value through profit or loss

Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. The derivative financial instruments held by the Bank and its subsidiaries, except for those designated as hedging instruments, are classified under these accounts. The Bank and its subsidiaries designate financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- B. Performance of the financial assets is evaluated on a fair value basis;
- C. Hybrid instruments contain one or more embedded derivatives.

Financial assets in this category are measured at fair value at balance sheet date. Changes in fair value are recognized in profit or loss as incurred.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. Available-for-sale financial assets — net

At each balance sheet date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized directly in other comprehensive income. Interest on a debt instrument classified as available-for-sale is accrued; the relevant premium/discount is amortized by using the effective-interest-rate method. If there is objective evidence that an available-for-sale financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss of the available-for-sale equity securities decreases, the impairment loss recognized in profit or loss shall not be reversed through profit or loss. If, in a subsequent period, the amount of the impairment loss of the available-for-sale debt securities decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized. A gain or loss on available-for-sale financial assets is recognized directly in other comprehensive income, except for impairment losses and foreign exchange gains or losses arising from monetary financial assets, until the financial assets are derecognized, at which time the cumulative gain or loss previously recognized in other comprehensive income is charged to profit or loss.

3. Securities under repurchase/resell agreements

Securities sold/purchased with a commitment to repurchase/resell at predetermined price are treated as financing transactions. The difference between the cost and the repurchase/resell price is treated as interest expenses/revenue and recognized over the term of the agreement. On the selling/purchasing date, these agreements are recognized as securities sold under repurchase agreements or securities purchased under resell agreements.

4. Loans and receivables

At initial recognition, loans and receivables include incremental direct transaction costs, and the subsequent measurement recognizes interest revenues through the effective interest method on accrual basis, under which the loans and receivables are carried at amortized cost less impairment losses. Loans are reclassified as a non-accrual account if either of the following conditions is met, and interest collected while accruing of interest has been suspended is included in earnings only to the extent of cash actually received.

- A. Collection of payment of principal or interest accrued is considered highly unlikely; or
- B. Payment of principal or interest accrued is over 3 or 6 months past due; or

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- C. Payment of principal, interest accrued and other suspense account of credit card is over 90 days past due.

As the purpose of holding those creditor's rights has changed, these loans held for sale are accounted for under "other financial assets" and will be valued using the lower-of-cost-or-market method in the future.

With regards to loans and receivables, the objective evidence shall be identified first to reveal any impairment existing for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, it shall be included in a set of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment are not required to be collectively assessed because impairment is or continues to be recognized.

Nonaccrual accounts deemed uncollectible are written off upon approval of the board of directors. The recovery of written-off loans and accounts receivable is accounted for under the reversal of the allowance for credit losses.

Reserves for guarantees are appropriately provided based on an estimate of probable losses inherent in the ending balances of guarantees, acceptances receivable, and commercial paper.

Another estimate will also be reached following Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans issued by the FSC and other related regulations. Final provision will be based on the higher of the two estimates.

5. Held-to-maturity financial assets — net

The amortized cost and interest income of held-to-maturity financial assets are determined by using the effective-interest-rate method. If there is objective evidence that a held-to-maturity financial asset is impaired, the carrying amount of the asset is reduced, and impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

6. Financial assets carried at cost

Equity instruments with no quoted market price are initially recognized at whose fair value plus transaction costs. At each balance sheet date, fair value can be reliably measured if either of the following conditions is met:

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- A. The variability in the range of reasonable fair value estimates is not significant for that instrument; or
 - B. The probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, it is not permissible to measure the instrument at fair value; instead, the instrument shall be carried at cost.
7. Debt investments without active markets

The amortized cost and interest income of debt investments without an active market are determined by using the effective-interest rate method. When there is objective evidence that an impairment loss on financial assets has been incurred, impairment loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized.

8. Financial assets initially classified as measured at fair value through profit or loss (other than derivative financial assets and those designated as assets measured at fair value through profit or loss) may be reclassified into other categories if those financial assets are no longer held for the purpose of selling and meet the criteria listed below; financial assets initially classified as available-for-sale that would have met the definition of held-to-maturity financial assets or loans and receivables may be reclassified out of the available-for-sale category to the loans and receivables. The accounting treatments on the date of reclassification are summarized as follows:
- A. When financial assets initially classified as measured at fair value through profit or loss have met the definition of loans and receivables and the entity has the intention and ability to hold the financial assets for the foreseeable future or until maturity, they shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
 - B. Financial assets initially classified as measured at fair value through profit or loss which do not meet the preceding criterion may be reclassified out of the fair value through profit or loss category only in rare circumstances and shall be reclassified at their fair value on the date of reclassification, which will become their new cost or amortized cost, as applicable. Any previous gain or loss already recognized in profit or loss shall not be reversed.
 - C. When financial assets initially classified as available-for-sale have met the definition of held-to-maturity financial assets or loans and receivables and the entity has the intention and ability to hold the financial assets for the

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

foreseeable future or until maturity, they shall be reclassified at their value on the date of reclassification, which will become their new cost or amortized cost, as applicable.

- D. For any previous gain or loss on a financial asset that has been recognized directly under owners' equity, if the financial asset has a fixed maturity, the gain or loss shall be amortized to current profit or loss over the remaining life of the financial asset; if not, the gain or loss remains under owners' equity.

9. Financial asset impairment

If there is an objective evidence that an impairment loss on financial assets has been incurred, the amount of the loss is recognized and measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; the amount of the loss shall be recognized in profit or loss in the current period. The estimation of future cash flows includes the recoverable amount of collateral and related insurance when determining the amount of the loss.

The aforesaid objective evidence includes:

- A. Significant financial difficulty of the issuer or obligor;
- B. A breach of contract, such as a default or delinquency in interest or principal payments;
- C. The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- D. It is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- E. The disappearance of an active market for that financial asset because of the issuer's financial difficulties;
- F. Adverse changes in the payment status of the borrower; and
- G. Changes in national or local economic conditions that correlate with defaults on the assets.

10. Derecognition of financial assets

The Bank or its subsidiaries shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or when the Bank or its subsidiaries transfer substantially all the risks and rewards of ownership of the financial assets.

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Securities lending agreement or repurchase transactions, where bonds or stocks are taken as collateral, shall not be derecognized, because the Bank or its subsidiaries have retained substantially all the risks and rewards of ownership. The transaction of asset backed securitization is applying to such situation when the Bank or its subsidiaries still retained partial risks.

(b) Financial liabilities

The financial liability held by the Bank or its subsidiaries includes a financial liability measured at fair value through profit or loss (including the instruments designated as at fair value through profit or loss), amortized cost of a financial liability and hedge derivatives.

1. Financial liabilities measured at fair value through profit or loss

A financial liability is held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, is classified as instrument held for trading as well. Financial liabilities held for trading include obligations to deliver financial assets borrowed by a short seller. The Bank and its subsidiaries designate financial liabilities, as at fair value through profit or loss at initial recognition under one of the following situations:

- A. Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- B. Performance of the financial liability is evaluated on a fair value basis;
- C. A hybrid instrument contains one or more embedded derivatives.

Financial liabilities falling under this category are measured at fair value in the balance sheet at the balance sheet date. Moreover, the changes in fair value are recognized as current profit or loss. While for financial liabilities designated at fair value through profit or loss, its fair value changed in the liability's credit risk should be recognized under other comprehensive income, except for avoiding accounting mismatch or in the circumstances of loan commitments and financial guarantee contract to provide a loan that should be accounted as current profit or loss.

Under certain circumstances, the Bank may not recognize profit or loss of a financial asset or financial liability at initial recognition, if a fair value is not derived from a quoted market price in an active market and is based on the evaluation method with data retrieved from unobservable market. In the above scenario, the recognition of the difference between fair value at initial recognition and transaction price is deferred. After initial recognition, the entity shall recognize the aforesaid deferred difference as a gain or loss only to the extent that it arises

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from a change in a factor that market participants would take into account when pricing the asset or liability.

2. Amortized cost of a financial liability

Financial liabilities are classified at amortized cost of a financial liability, except for financial liabilities measured at fair value through profit or loss, hedged derivatives financial liability, financial bonds payable, financial guarantee contracts, commitments to provide a loan at a below-market interest rate and financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.

3. Derecognition of a financial liability

The Bank and its subsidiaries shall remove a financial liability from its statement of financial position when, and only when, it is extinguished.

(c) Derivatives and hedging accounting

Derivative instruments are initially recognized at fair value on contract date and subsequently measured at fair value. Fair value includes quoted price in an active market, occurring market transaction prices or model valuation technique. All derivatives instruments are recognized as assets with positive fair value and as liability with negative fair value.

The Bank and its subsidiaries should account for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition that the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the entire hybrid contract is not designated as at fair value through profit or loss. In addition, the embedded derivative is recognized as financial asset or liability as measured at fair value through profit or loss.

When a fair value hedge, cash flow hedge, and hedge of a net investment in a foreign operation are in conformity with all the conditions for applying hedge accounting, the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items. The related accounting treatments are as follows:

1. Fair value hedge: Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments against the exposure to changes in fair value of a recognized asset or liability or an unrecognized firm commitment are recognized through profit or loss in the current period.
2. Cash flow hedge: Where a derivative financial instrument is designated as a hedge of the variability in cash flow of a recognized asset or liability or a highly probable forecast transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognized directly under other comprehensive income. When the hedged transaction actually affects the profit or loss, the gain or loss previously recognized under other comprehensive income

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shall be recognized through current profit or loss. Any gain or loss from the change in fair value relating to an ineffective portion of the hedge transaction is recognized immediately through profit or loss in the current period.

3. Hedge of a net investment in a foreign operation: The effective portion of any gain or loss on a hedging instrument relating to a hedge against foreign currency fluctuation in a foreign operation is recognized directly in other comprehensive income until the disposal of the foreign operation, at which time the cumulative gain or loss recognized directly under other comprehensive income is recognized in profit or loss in the current period.

(d) Financial guarantee contracts

The Bank and its subsidiaries recognize financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Bank and its subsidiaries receive commission income with non-arm's-length transaction at contract date; this is, the income could represent the fair value of financial guarantee contract. The advanced service fee is recognized as deferred item and amortized by straight-line method over the life of the financial guarantee.

Financial guarantee contracts shall be subsequently measured by the Bank and its subsidiaries at the higher of:

1. The amount determined in accordance with "Provisions"; and
2. The amount initially recognized less, when appropriate, cumulative amortization recognized from deferred revenues.

(G) Investment properties

Investment property could be recognized by the Bank and its subsidiaries only to earn rentals or for capital appreciation or both.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use by the Bank and its subsidiaries. If these portions could be sold separately, the Bank and its subsidiaries account for the portions separately. The portion that is held for use is treated following "Property and Equipment", and another portion that is held to earn rentals or for capital appreciation or both is regarded as investment property. If the portions could not be sold separately, and if an insignificant portion is held for use, then the whole property is regarded as investment property.

Investment property shall be recognized as an asset when, and only when it is probable that the future economic benefits that are associated with the investment property will flow to the Bank and its subsidiaries, and the cost of the investment property can be measured reliably. Subsequent expenditure is capitalized as cost only when it is probable that the future economic benefits that are associated with the investment property will flow to the Bank and its subsidiaries, and the cost of the investment property can be measured reliably. Regular repair costs are recognized as expenses in the period they are incurred.

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If the recognition criteria are met, the Bank and its subsidiaries recognize the cost of replacement in the carrying amount of the replaced investment property at the time the cost is incurred. The carrying amount of the part that is replaced is derecognized.

After initial recognition, real estate property is subsequently measured by using cost model, and amortized by the depreciable amount. Its depreciation method, useful life and residual value can be referred to the regulation of premises and equipment.

When the use of a property changes such that it is reclassified as premises and equipment, the book value at the date of reclassification become its cost for subsequent accounting.

(H) Non-financial asset impairment

At each balance sheet date, the recoverable amount of an asset is estimated and compared with the carrying amount whenever there is an indication that the non-financial asset may be impaired. An impairment loss is recognized when the recoverable amount, higher of fair market value or value in use, is less than the carrying amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior-period estimation. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

(I) Assets held for sale

For an asset or disposal group to be classified as held for sale, it needs to be disposed of through sale rather than through continuing use to recover its carrying amount. Assets or disposal groups that meet the criteria to be classified as such must be subject only to terms that are usual and customary and be available for immediate sale, which is highly probable, within one year of such classification. After being classified as held for sale, it is measured at the lower of carrying amount and fair value less costs to sell.

Amortization or depreciation on intangible assets, premises and equipment ceases once they are classified as held for sale.

(J) Investments in associates

Investments in associates in which the Bank is able to exercise significant influence and subsidiaries the Bank has control over, are accounted for under the equity method and initially recognized at cost. Goodwill, deducting accumulated impairment loss, relating to an associate is included in the carrying amount of the investment. The equity method discontinues to be used from the date when it ceases to have significant influence, and the book value is taken as the new cost of the investment.

The Bank has significant influence if holding, directly or indirectly 20% or more of the voting right of the investee. However, an exception will apply if the Bank can specify that it has no significant influence over an investee.

After the date of acquisition the Bank or its subsidiaries' share of the profit or loss of the associates is recognized in profit or loss. Distributions received from an associate reduce the carrying amount of the investment. Adjustments to the carrying amount of the

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investment may also be necessary for changes in the Bank or its subsidiaries' proportionate interest in the associates arising from changes in the associates' other comprehensive income. If the Bank or its subsidiaries' share of losses of an associate equals or exceeds their interest in the associate (including non-guarantee long-term receivables), the Bank or its subsidiaries discontinues recognizing its share of further losses. Additional losses are provided for, and a liability is recognized, only to the extent that the Bank or its subsidiaries has incurred legal or constructive obligations or made payments on behalf of the associate.

Changes in ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances the carrying amounts of the parent's ownership interest and non-controlling interests shall be adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity.

(K) Cash surrender value of life insurance

The Bank's U.S. subsidiary purchased single-premium life insurance under which the executive officers and directors are the insured, while the subsidiary is the owner and beneficiary thereof. The cash surrender value indicates the amount that would be received if the life insurance is terminated prior to the maturity date, and is accounted for under "other assets."

(L) Premises and equipment

The Bank and its subsidiaries' property and equipment are recognized after deducting any accumulated depreciation and accumulated impairment losses from historical cost. The historical cost includes any costs directly attributable to acquiring the assets.

Subsequent expenditure of property and equipment shall be recognized as an asset or be included in the carrying amount of assets, when, and only when it is probable that the future economic benefits that are associated with property and equipment will flow to the Bank or its subsidiaries, and the cost of property and equipment can be measured reliably. The carrying amount of those parts that are replaced is derecognized. A major improvement or repair expense that can extend the benefits over afterward period is regards as capital expenditure; while frequent maintenance or repairs are charged to current expenses.

If the Bank and its subsidiaries have obligations to dismantle, remove and restore the property and equipment, the obligation for which the Bank and its subsidiaries incur either when the item is acquired or as a consequence of having used the item during a particular period shall be recognized as the cost of the property and equipment as well as liability.

Depreciation is computed using the straight-line method; the useful lives are calculated based on the normal economic lives. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The residual value and the useful life of an asset shall be reviewed or adequately adjusted at each financial year-end. Useful lives of major premises and equipment are as follows:

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | |
|--------------------------|------------|
| Buildings and premises | 2~56 years |
| Transportation equipment | 4~ 6 years |
| Miscellaneous equipment | 2~20 years |

The gain or loss arising from the disposition of an item of property and equipment shall be recognized in current profit or loss and determined as the difference between the disposal proceeds and the carrying amount of the item.

(M) Intangible assets

(a) Computer software

Computer software system expenses, which are recorded on the basis of the actual cost of acquisition, are amortized using a straight-line method over a period of 3 to 15 years. Its amortization method, useful life and residual value are referred to the regulation of properties and equipment. The Bank and its subsidiaries use cost model to proceed subsequently measurement.

(b) Goodwill

The Bank and its subsidiaries account a business combination by applying the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities assumed by the acquirer and the equity interests issued by the acquirer. In addition, other expense directly contributed to the acquisition is included. The acquirer shall measure the identifiable assets acquired from business combination and the liabilities or contingent liabilities assumed at their acquisition-date fair values without considering non-controlling interest. The acquirer shall recognize goodwill as of the acquisition date measured as the excess of the consideration transferred over the fair value of net identifiable assets held according to holding proportion. Adversely, the difference may result in directly recognizing a gain on a purchase.

Goodwill relating to cash-generating units is tested for impairment periodically each year. An impairment loss is recognized when the recoverable amount is less than the carrying amount. Impairment losses cannot be reversed once an impairment loss has been recognized.

(N) Foreclosed properties

Foreclosed properties received are stated at acquired cost, and the difference between it and the nominal value of the original claim is reflected as a credit loss. On the balance sheet date, if the foreclosed properties received are still unsold, they shall be evaluated at the lower of carrying amount and net fair market value. If there is sufficient evidence indicating that the net fair market value is lower than the carrying amount of foreclosed properties, the difference after reassessment is accounted for under impairment loss on assets. Gain or loss on disposal of foreclosed properties is recognized in current profit or loss as well.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(O) Provisions

The Bank and its subsidiaries recognize provisions only if all of the following conditions are met:

- (a) An entity has a present obligation, legal or constructive, as a result of a past event;
- (b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (c) A reliable estimate can be made of the amount of the obligation.

The Bank and its subsidiaries shall not recognize provisions for future operating losses.

Where there are a number of similar obligations the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognized.

The amount of a provision is measured subsequently as the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The deficiency is recognized as profit or loss of the current period.

(P) Revenue recognition

The Bank and its subsidiaries' incomes are recognized on an accrual basis. Please refer to Note 4(F)(a)4. loans and receivables for more information on interest income from receivables and loans.

(Q) Employee benefit

- (a) Short-term employee benefit: The Bank or its subsidiaries expects to settle all short-term non-discounted benefits in twelve months after the end of annual financial reporting date in which the services are rendered by employees, and recognize as current expenses.
- (b) Post-employment benefit: The Bank and its subsidiaries' pension plan comprises defined contribution plan and defined benefit plan.

- 1. A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that is due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. A defined benefit plan is a post-employment benefit plan under which benefit is paid to an employee on the basis of their ages, service periods and compensated salaries at the date of retirement. The Bank recognizes remeasurements of the defined benefit plan which are incurred by the change of actual experience and actuarial assumption in other comprehensive income, and recognize pension asset or liability in balance sheet in which asset or liability is the amount of actuarial present value of defined benefits obligation deducting fair value of plan assets. The calculation of defined benefits obligation is performed annually by an actuary using the projected unit credit method. The actuarial present value of defined benefits obligation is calculated by discounting future cash flow at the yield rate on AA credit rated bonds that have maturity dates approximating the terms of the obligation and that are denominated in the same currency in which the benefits are expected to be paid. In accordance with the article 30 of the Regulations Governing the Preparation of Financial Reports by Public Bank's, when the interest incurred from retiree deposits with favorable rates exceed the interest generated from market rate, it should be considered the actuarial amount according to defined benefit plan regulated on IAS 19 "Employee Benefits" since the employee's retirement date. Otherwise, the parameter of actuarial assumption of competent authority should be followed (if have). The interim amount of define benefit plan is determined based on the pension cost rate, which is the actuarial rate at the end of last fiscal year, and the amount, which is from the beginning of the year to the end of current period. In addition, an adjustment would be made if significant market fluctuation, significant decrease, pay-off or other significant one-time event occurs after the end of period.
 3. The defined contribution plan of overseas unit is in accordance with respective authorities' regulation.
- (c) Termination benefits: Termination benefits are incurred when the Bank or its subsidiaries terminate employment prior to qualifying for retirement, or the employees accepted voluntary redundancy to get termination benefits in return. Termination benefits are recognized as a liability when the Bank and its subsidiaries are committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to provide termination benefits or make an offer of termination benefits to encourage voluntary redundancy. Termination benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(R) Share based payment transactions

The Bank's accounting treatments of share-based payment are as below.

- (a) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, and the corresponding increase in owners' equity is recognized. The vesting period is estimated based on the ultimate vesting conditions that must be satisfied. The vesting conditions include service conditions and performance conditions, including market conditions. In valuing equity-settled payments, no account is taken of any vesting conditions other than market conditions.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (b) For cash-settled share-based payment transactions, a liability equal to the portion of the goods or services received is recognized at its current fair value determined at each balance sheet date and at the date of settlement, with any changes in the fair value recognized in profit or loss of the period.
- (c) Fair value of the share options at the grant date is measured with the use of an option pricing model based on management's best estimate of the exercise price, expected term, underlying share price, expected volatility, expected dividend yield, risk-free interest rate, and any other inputs to the model.

(S) **Compensations of employees and directors**

The Bank's employees' and directors' (including independent directors) compensations are recognized as personnel expenses. Any difference lies between the actual allocation amount and previously recognized in the financial report is considered as change in accounting estimates which is then recognized as profit or loss in next year.

(T) **Income taxes**

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss. Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the years calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years. Income tax expense is measured by interim reporting period net income before tax multiplied by best estimate effective annual tax rate. And the best estimate effective annual tax rate is determined by the management. Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities may be offset against each other if the following criteria are met by the Bank and its subsidiaries:

- (a) The entity has the legal right to settle tax assets and liabilities on a net basis; and
- (b) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - 1. Levied by the same taxing authority; or
 - 2. Levied by different taxing authorities, but where each such authority intends to settle tax assets and liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be re-evaluated every year on the financial reporting date, and adjusted based on the probability that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized.

As a subsidiary of CTBC Financial Holding Co., Ltd., the Bank files a consolidated corporate income tax return with its parent company and its subsidiaries. The difference between the consolidated income tax and the Bank's ordinary income tax is adjusted at the parent-company level, and the Bank recognizes such difference as payables or receivables.

The Bank's 10% surtax on undistributed earnings is recorded as current expense on the date of the resolution of the board of directors on behalf of shareholders' meeting for declaring the distribution of earnings.

(U) Contingent liabilities

A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank or its subsidiaries; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. The Bank and its subsidiaries shall not recognize a contingent liability; instead, contingent liability shall be appropriately disclosed.

(V) Operating segments

An operating segment is a component of the Bank and its subsidiaries that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Bank and its subsidiaries). The segment's operating results are reviewed regularly by the Bank's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance for which discrete financial information is available.

The prime responsibility of the Bank's parent company CTBC Financial Holding Co., Ltd. is the management of its subsidiaries, whose operational performance and resource allocation are executed under board approval of the parent company. The Bank and component subsidiaries periodically report actual financial results to the Group's Management Board, and thereby leading to its role as the chief operating decision maker.

5. PRIMARY SOURCES OF SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS UNCERTAINTY

When preparing the consolidated financial reports in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, the Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and International Financial Report Standards (IFRS),

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

as accepted by Financial Supervisory Commission, the management needs to make judgments, estimates, and assumptions that affect the adoption of accounting policies, reported amounts of assets, liabilities, revenues, and expenses. Actual results could differ from these estimates.

Continuously evaluation of estimates and assumption should be made by the management. A change of accounting estimate should be recognized in the period when it incurs and in the affected future periods.

Please refer to the following for accounting policies and management judgments for certain account items have significant impacts on the consolidated financial reports of the Bank and its subsidiaries and any information about any estimate and assumption that are uncertain, have significant risk and may have significant impact on the following year.

(A) Impairment of loans and receivables

When the Bank and its subsidiaries decide whether to recognize impairment loss, they mainly assess if there are any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or local economic situation related to debt payment in arrears. When analyzing expected cash flow, the estimates by the management are based on past losses experience on assets of similar credit risk characteristics. The Bank and its subsidiaries periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

Please refer to Note 6(G) and 6(H) for impairment of loans and receivables.

(B) Assessment of goodwill impairment

Assessment of goodwill impairment depends on subjective judgment by the Bank and its subsidiaries, including identifying cash-generating units, allocating goodwill to related cash generating units, and deciding recoverable amount of related cash generating units. The management of the Bank and its subsidiaries shall estimate the expected future cash flow from cash generating units and decide proper discount rate for calculating present value. If the actual cash flow is less than expected, significant impairment losses may incur.

(C) Assessment of the fair value of financial instruments.

The Bank and its subsidiaries hold certain financial instruments without active markets, including financial instruments lacking active market quotes and financial instruments that turned out to be inactive due to market conditions (e.g., low market liquidity). When a market is inactive, there are usually only a few or no observable market data available to measure the fair value of financial instruments. Determination of the existence of an active market for a financial instrument requires management's judgment. If the market for an investment held by the Bank and its subsidiaries are not active, the fair value of the instrument is determined using valuation techniques. The Bank and its subsidiaries use quotes from independent third parties or prices derived from internally developed models to determine the fair value of those financial instruments. When the fair value may be publicly obtained from independent sources, it shall be adopted first. Overall, the Bank and its subsidiaries would decide a source or a technique as a fair value determination method that can reflect the price achieved

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

between market participants through regular trading as of the reporting date. Valuation techniques include adoption of recent arm's-length transactions, reference to other instruments with a substantially identical basis, application of discounted cash flow analysis, etc., which may also include a number of assumptions related to each variable (such as credit risk and interest rate). Adoption of different valuation techniques or assumptions may lead to significant discrepancies in fair value determination results.

Please refer to note 6(AN) for the estimated fair value of the above financial instruments.

6. SUMMARY OF MAJOR ACCOUNTS

(A) Cash and cash equivalents

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|--------------------------|--------------------------|
| Cash on hand | \$ 26,007,757 | 26,109,293 |
| Petty cash and revolving fund | 22,758 | 23,792 |
| Checks for clearance | 4,723,305 | 2,276,816 |
| Cash in transit | 10,281,236 | 9,648,375 |
| Due from other banks | 43,186,848 | 43,145,614 |
| Total | \$ 84,221,904 | 81,203,890 |

(B) Due from Central Bank and call loans to bank

| | December 31, 2016 | December 31, 2015 |
|-----------------------------------|--------------------------|--------------------------|
| Required reserve—Account A | \$ 42,506,803 | 65,348,694 |
| Required reserve—Account B | 44,443,419 | 44,907,251 |
| Required reserve—Foreign Currency | 103,293 | 165,330 |
| Due from Central Bank | 119,410,754 | 153,084,598 |
| Call loans to banks | 58,686,926 | 138,500,130 |
| Bank overdrafts | 70 | - |
| Total | \$ 265,151,265 | 402,006,003 |

The reserves for deposits are calculated at prescribed rates, using the average monthly balances of various deposit accounts, and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposits in “Required reserve—Account A” are interest free and can be withdrawn at any time; deposits in “Required reserve—Account B” are interest bearing and cannot be withdrawn except for the monthly adjustment to the required reserve permitted by relevant regulations.

Parts of the above due from Central Bank and call loans to banks are restricted, and please refer to Note 8 for further details.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Financial instruments measured at fair value through profit or loss

The financial assets held for trading and the financial assets designated at fair value through profit or loss by the Bank and its subsidiaries were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|------------------------------|---------------------------|
| Financial assets held for trading | | |
| Commercial paper | \$ 86,814,786 | 46,456,169 |
| Negotiable certificate of deposit | 1,613,950 | - |
| Treasury bills | 87,330 | - |
| Government bonds | 2,820,882 | 667,947 |
| Corporate bonds | 28,306 | 373 |
| Convertible bonds | 1,944,116 | 3,844,529 |
| Listed and OTC securities | 10,920 | 306,183 |
| Beneficiary certificates | - | 32,783 |
| Derivative financial assets | 63,575,088 | 81,105,512 |
| Valuation adjustment of financial assets | 201,567 | 81,022 |
| Subtotal | <u>157,096,945</u> | <u>132,494,518</u> |
| Designated as financial assets measured at fair value through profit or loss | | |
| Government bonds | 16,025,132 | - |
| Corporate bonds | 551,400 | 6,787,782 |
| Other securities and bonds | 1,240,650 | 1,304,825 |
| Valuation adjustment of financial assets | (618,876) | 14,998 |
| Subtotal | <u>17,198,306</u> | <u>8,107,605</u> |
| Total | <u>\$ 174,295,251</u> | <u>140,602,123</u> |

Please refer to Note 6(S) for information with regard to repurchase conditions for financial assets held for trading shown above.

Financial liabilities measured at fair value through profit or loss of the Bank and its subsidiaries were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|-----------------------------|---------------------------|
| Derivative financial liabilities | \$ 63,978,898 | 88,909,223 |
| Financial liabilities designated at fair value through profit or loss | 28,178,587 | 38,683,355 |
| Total | <u>\$ 92,157,485</u> | <u>127,592,578</u> |

The aforementioned financial liabilities designated at fair value through profit or loss were issued by the Bank, with the related terms and conditions disclosed in Note 6(V). The amounts of fair value and its changes which are attributable to changes in the credit risk were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Financial debentures at fair value | \$ 28,178,587 | 38,683,355 |
| Cumulative changes in fair value that is attributable to changes in the credit risk | 317,142 | (1,614,741) |
| The difference between book value and the amount payable upon maturity as specified in the contract | 5,294,736 | 5,955,745 |

The Bank assesses changes in fair value that is not attributable to changes in market conditions that give rise to swing of market risk to evaluate changes in fair value due to shift of credit risk. For the years ended December 31, 2016 and 2015, there is no transfer of the cumulative gain or loss within equity.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The fair value of the callable financial debentures issued by the Bank is evaluated based on the internal evaluation model, with evaluation variables retrieved from parameters unobservable in the market. In consideration of the discrepancy between evaluated price and transaction price, the Bank has recognized reserve for day one profits. The changes in reserve for day one profits were as follows :

| | For the years ended December 31 | |
|----------------------------------|--|------------------|
| | 2016 | 2015 |
| January 1 | \$ 3,480,703 | 2,752,068 |
| Current issuance of debentures | 2,886,847 | 1,447,510 |
| Current redemption of debentures | (2,093,048) | - |
| Current amortization | (681,498) | (884,786) |
| Foreign exchange (losses) gains | (70,966) | 165,911 |
| December 31 | \$ 3,522,038 | 3,480,703 |

(D) Available-for-sale financial assets — net

| | December 31, 2016 | December 31, 2015 |
|--|--------------------------|--------------------------|
| Negotiable certificates of deposit | \$ 389,021,654 | 225,587,845 |
| Treasury bills | 5,279,689 | 343,446 |
| Government bonds | 90,679,887 | 111,577,852 |
| Corporate bonds | 22,098,249 | 30,019,727 |
| Financial debentures | 41,774,233 | 31,935,045 |
| Beneficiary certificates | 2,739,398 | 7,580,739 |
| Listed and OTC securities | 5,683,109 | 4,934,247 |
| Asset-backed securities | 38,671,826 | 43,383,494 |
| Other securities and bonds | 963,265 | 325,446 |
| Valuation adjustment of financial assets | (2,161,004) | 20,459 |
| Total | \$ 594,750,306 | 455,708,300 |

Please refer to Notes 6(S) and 8 for information with regard to the repurchase conditions for, or restrictions on, available-for-sale financial assets shown above.

(E) Derivative financial instruments — hedging

Hedging derivative financial assets of the Bank were as follows:

| | December 31, 2016 | December 31, 2015 |
|---|--------------------------|--------------------------|
| Fair value hedge: | | |
| Interest rate swaps | \$ 48,756 | 91,845 |
| Hedge of a net investment in a foreign operation: | | |
| Currency swaps | 367,586 | 15,681 |
| Total | \$ 416,342 | 107,526 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Hedging derivative financial liabilities of the Bank were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Fair value hedge: | | |
| Non-delivery forwards | \$ 19,779 | 26,428 |
| Hedge of a net investment in a foreign operation: | | |
| Currency swaps | 283,820 | 415,000 |
| Total | <u>\$ 303,599</u> | <u>441,428</u> |

(a) Fair value hedge

In order to minimize the risk from future market interest rate fluctuation, the Bank entered into interest rate swap transactions, where the interest rate payable on fixed-interest-rate debts issued has been swapped with a floating interest rate to reduce interest rate risk. The Bank further entered into non-delivery forwards; these contracts are principally to hedge against the foreign exchange fluctuation of capital of the international banking department.

| Hedged items | Designated hedging instruments | | |
|---|---|-------------------|----------|
| | Financial instruments designated as hedging instruments | Fair value | |
| | | December 31,2016 | |
| | | December 31, 2015 | |
| Financial debentures in NTD | Interest rate swaps | \$ 48,756 | 91,845 |
| Capital of international banking department in USD | Non-delivery forwards | (19,779) | (26,428) |

For the years ended December 31, 2016 and 2015, net gains (losses) on the hedging derivative financial instruments and the hedged items were as follows:

| | <u>For the year ended</u> <u>December 31, 2016</u> | <u>For the year ended</u> <u>December 31, 2015</u> |
|---|---|---|
| Net gains from derivative financial instruments | <u>\$ 11,512</u> | <u>149,480</u> |
| Net losses from the hedged items | <u>\$ (118,110)</u> | <u>(314,746)</u> |

(b) Hedge of a net investment in a foreign operation

In order to minimize the risk from overseas equity-method investments, the Bank entered into currency swaps to hedge against foreign exchange fluctuation.

| Hedged items | Designated hedging instruments | | |
|--|--------------------------------------|------------------|-------------------|
| | Financial instruments | Fair value | |
| | designated as hedging instruments | December 31,2016 | December 31, 2015 |
| CTBC Bank Co., Ltd.- Ho Chi Minh City Branch | Currency swaps | \$ (11,591) | (10,717) |
| CTBC Capital Corp. | " | (133,127) | (112,389) |
| CTBC Bank Corp. (Canada) | " | 231 | 7,507 |
| The Tokyo Star Bank , Ltd. | " | 228,253 | (283,720) |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(F) Securities purchased under resell agreements

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Securities purchased under resell agreements | <u>\$ 237,500</u> | <u>-</u> |
| Face value of securities | <u>\$ 218,177</u> | <u>-</u> |

(G) Receivables — net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Notes receivable | \$ 34,817 | 40,743 |
| Accounts receivable | 63,983,818 | 62,327,712 |
| Accounts receivable factoring | 19,479,864 | 45,394,449 |
| Interest receivable | 6,185,808 | 6,151,896 |
| Acceptances receivable | 7,464,074 | 5,793,307 |
| Accrued income | 58,943 | 30,851 |
| Securities receivable | 38,651 | 5,791,165 |
| Interbank clearing receivable | 1,932,012 | 1,721,919 |
| Premium receivable | 3,937,838 | 5,531,090 |
| Accounts receivable for assets held for sale | - | 13,610,430 |
| Other receivables | 4,377,235 | 2,510,607 |
| Subtotal | <u>107,493,060</u> | <u>148,904,169</u> |
| Less: Allowance for credit losses | <u>(3,109,718)</u> | <u>(2,229,515)</u> |
| Total | <u>\$ 104,383,342</u> | <u>146,674,654</u> |

The accounts receivable shown above included the receivables from credit card holders who were involved in debt repayment negotiation with the Bank.

Please refer to Note 8 for information with regard to the restrictions on other receivables shown above.

Please refer to Note 6(I) for changes in allowance for credit losses of receivables listed above.

Receivables of the Bank and its subsidiaries should be included in impairment assessment. Please refer to the following table for the amount of receivables and the respective allowance for credit losses, excluding that of credit card receivables, which is accounted for under provisions. Total receivables do not encompass investments in security-related and other receivables whose impairment assessments are consistent with corresponding assets.

| | | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--|--------------------------|--------------------------|
| Receivables excluded from evaluation of impairment | | <u>\$ 7,000,749</u> | <u>8,632,837</u> |

| | | <u>December 31, 2016</u> | | |
|--|-----------------------|--------------------------|---|--|
| | | | <u>Adjustment of discount and premium</u> | <u>Allowance for credit losses</u> |
| <u>Items</u> | | <u>Receivables</u> | | |
| With objective evidence of impairment | Individual assessment | \$ 1,933,553 | - | 1,299,902 |
| | Collective assessment | 3,435,692 | - | 445,947 |
| Without objective evidence of impairment | Collective assessment | 92,809,789 | - | 1,363,869 |
| | Total | <u>\$ 98,179,034</u> | <u>-</u> | <u>3,109,718</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | | December 31, 2015 | | |
|--|-----------------------|------------------------------|---|------------------------------------|
| | | | Adjustment of discount and premium | Allowance for credit losses |
| Items | | Receivables | | |
| With objective evidence of impairment | Individual assessment | \$ 322,769 | - | 305,773 |
| | Collective assessment | 3,567,634 | - | 452,236 |
| Without objective evidence of impairment | Collective assessment | 133,967,932 | - | 1,471,506 |
| Total | | <u><u>\$ 137,858,335</u></u> | <u><u>-</u></u> | <u><u>2,229,515</u></u> |

(H) Loans — net

| | December 31, 2016 | December 31, 2015 |
|--|--------------------------------|-----------------------------|
| Corporate loans | \$ 471,813,529 | 527,090,168 |
| Micro-business loans | 14,646,269 | 22,491,435 |
| Mortgage loans | 513,927,854 | 449,872,194 |
| Automobile loans | 653 | 923 |
| Consumer loans | 107,765,466 | 105,992,945 |
| Subtotal of NTD loans | 1,108,153,771 | 1,105,447,665 |
| Foreign currency loans | 959,216,621 | 919,596,526 |
| Non-accrual loans | 12,416,288 | 14,911,315 |
| Subtotal | 2,079,786,680 | 2,039,955,506 |
| Less: Allowance for credit losses | (28,748,637) | (27,026,726) |
| Less: Adjustment of discount and premium | (1,538,540) | (1,567,612) |
| Fair value adjustment resulting from acquisition | 62,609 | 113,141 |
| Total | <u><u>\$ 2,049,562,112</u></u> | <u><u>2,011,474,309</u></u> |

The loans shown above included the loans to cash card holders and fiduciary loans to clients who were involved in debt repayment negotiation with the Bank.

Please refer to Note 6(AN) for the industry information.

Non-performing loans of the Bank and its subsidiaries were as follows:

| | December 31, 2016 | December 31, 2015 |
|----------------------|-----------------------------|--------------------------|
| Non-performing loans | <u><u>\$ 13,114,386</u></u> | <u><u>16,011,226</u></u> |

For the years ended December 31, 2016 and 2015, suspended interest on non-performing loans were as follows:

| | For the years ended December 31 | |
|--|--|-----------------------|
| | 2016 | 2015 |
| Suspended interest on non-performing loans | <u><u>\$ 40,280</u></u> | <u><u>159,826</u></u> |

For the years ended December 31, 2016 and 2015, there were no loans written off without recourse.

Please refer to Note 6(I) for changes in allowance for credit losses of loans listed above.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Loans should be included in the total amounts of assessment of impairment to determine the allowance for credit losses, which were as follows:

| | | December 31, 2016 | | |
|--|-----------------------|--------------------------|---|------------------------------------|
| Items | | Loans | Adjustment of discount and premium | Allowance for credit losses |
| With objective evidence of impairment | Individual assessment | \$ 14,657,455 | 39,127 | 5,323,376 |
| | Collective assessment | 19,028,951 | 3,092 | 3,852,682 |
| Without objective evidence of impairment | Collective assessment | 2,046,100,274 | (1,580,759) | 19,572,579 |
| Total | | <u>\$ 2,079,786,680</u> | <u>(1,538,540)</u> | <u>28,748,637</u> |

| | | December 31, 2015 | | |
|--|-----------------------|--------------------------|---|------------------------------------|
| Items | | Loans | Adjustment of discount and premium | Allowance for credit losses |
| With objective evidence of impairment | Individual assessment | \$ 13,992,083 | 31,645 | 4,710,355 |
| | Collective assessment | 20,848,221 | 1,171 | 3,792,346 |
| Without objective evidence of impairment | Collective assessment | 2,005,115,202 | (1,600,428) | 18,524,025 |
| Total | | <u>\$ 2,039,955,506</u> | <u>(1,567,612)</u> | <u>27,026,726</u> |

(I) Allowance for credit losses

The changes in allowance for credit losses, attributed to loans, receivables, other financial assets, and provision of guarantee reserves, were as follows:

| For the year ended December 31, 2016 | | | | | | | | |
|--|--|--|------------------|--|--|-------------------|---------------------|-------------------|
| | Receivables | | | Loans | | | Other (Note) | Total |
| | Inherent risk of overall claims | Default risk of specific claims | Total | Inherent risk of overall claims | Default risk of specific claims | Total | | |
| Beginning balance | \$ 1,471,506 | 758,009 | 2,229,515 | 18,524,025 | 8,502,701 | 27,026,726 | 414,010 | 29,670,251 |
| Current (reversal) provision | (24,576) | 1,884,812 | 1,860,236 | 1,175,290 | 2,813,971 | 3,989,261 | 55,604 | 5,905,101 |
| Current write-off | - | (1,803,421) | (1,803,421) | (1,126) | (3,652,298) | (3,653,424) | (90,689) | (5,547,534) |
| Recovery of bad debts | - | 912,039 | 912,039 | - | 1,476,603 | 1,476,603 | 478 | 2,389,120 |
| Non-accrual loans transferred from non-loan financial assets | - | (4,500) | (4,500) | - | - | - | 4,500 | - |
| Exchange rate effects | (83,061) | (1,090) | (84,151) | (125,610) | 35,081 | (90,529) | (11,810) | (186,490) |
| Ending balance | <u>\$ 1,363,869</u> | <u>1,745,849</u> | <u>3,109,718</u> | <u>19,572,579</u> | <u>9,176,058</u> | <u>28,748,637</u> | <u>372,093</u> | <u>32,230,448</u> |

| For the year ended December 31, 2015 | | | | | | | | |
|--|--|--|------------------|--|--|-------------------|---------------------|-------------------|
| | Receivables | | | Loans | | | Other (Note) | Total |
| | Inherent risk of overall claims | Default risk of specific claims | Total | Inherent risk of overall claims | Default risk of specific claims | Total | | |
| Beginning balance | \$ 1,365,271 | 745,035 | 2,110,306 | 16,375,179 | 10,760,864 | 27,136,043 | 326,769 | 29,573,118 |
| Current provision (reversal) | 99,239 | (125,899) | (26,660) | 1,942,971 | (822,729) | 1,120,242 | 148,435 | 1,242,017 |
| Current write-off | - | (828,974) | (828,974) | (8,353) | (3,376,096) | (3,384,449) | (118,184) | (4,331,607) |
| Recovery of bad debts | - | 966,375 | 966,375 | - | 1,806,462 | 1,806,462 | 10,352 | 2,783,189 |
| Non-accrual loans transferred from non-loan financial assets | - | 1,870 | 1,870 | - | - | - | (1,870) | - |
| Exchange rate effects | 6,996 | (398) | 6,598 | 214,228 | 134,200 | 348,428 | 48,508 | 403,534 |
| Ending balance | <u>\$ 1,471,506</u> | <u>758,009</u> | <u>2,229,515</u> | <u>18,524,025</u> | <u>8,502,701</u> | <u>27,026,726</u> | <u>414,010</u> | <u>29,670,251</u> |

Note: Including other financial assets and provision of guarantee reserves, etc.

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(J) Held-to-maturity financial assets — net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------|------------------------------|---------------------------|
| Commercial paper | \$ 318,556 | 577,860 |
| Negotiable certificates of deposit | 23,073,367 | 56,551,951 |
| Treasury bills | 4,088,773 | 3,258,956 |
| Government bonds | 73,466,267 | 74,305,203 |
| Corporate bonds | 7,096,741 | 4,735,968 |
| Financial debentures | 17,580,185 | 8,103,321 |
| Asset-backed securities | 430,148 | 133,847 |
| Total | <u><u>\$ 126,054,037</u></u> | <u><u>147,667,106</u></u> |

Please refer to Notes 6(S) and 8 for information with regard to the repurchase conditions for, or restrictions on, held-to-maturity financial assets shown above.

(K) Investment under equity method — net

| | <u>December 31, 2016</u> | |
|--|--------------------------|----------------------------|
| | <u>%</u> | <u>Book value</u> |
| Grand Bills Finance Corporation (original investment at \$1,010,880 thousand) | 21.15 | \$ 1,868,636 |
| AZ-Star Co., Ltd. (original investment at JPY 12,000 thousand) | 40.00 | 4,107 |
| AZ-Star no. 1 Investment Limited Partnership (original investment at JPY 1,380,268thousand) | 43.98 | 342,285 |
| Total | | <u><u>\$ 2,215,028</u></u> |

| | <u>December 31, 2015</u> | |
|--|--------------------------|----------------------------|
| | <u>%</u> | <u>Book value</u> |
| Grand Bills Finance Corporation (original investment at \$1,010,880 thousand) | 21.15 | \$ 1,863,187 |
| AZ-Star Co., Ltd. (original investment at JPY 12,000 thousand) | 40.00 | 3,296 |
| AZ-Star no. 1 Investment Limited Partnership (original investment at JPY 1,288,468thousand) | 43.98 | 353,942 |
| Total | | <u><u>\$ 2,220,425</u></u> |

For the years ended December 31, 2016 and 2015, the amount of profit and loss from associates recognized under equity-method investments were as below:

| | <u>For the years ended December 31</u> | |
|------------|--|----------------------|
| | <u>2016</u> | <u>2015</u> |
| Associates | <u><u>\$ 80,760</u></u> | <u><u>89,166</u></u> |

The following is the collected prorated financial information of the associates that are individually insignificant to the Bank and its subsidiaries. The financial information is derived from the consolidated financial report.

| | <u>For the years ended December 31</u> | |
|---------------------------------------|--|-----------------------|
| | <u>2016</u> | <u>2015</u> |
| Net Income from Continuing Operations | \$ 80,760 | 124,976 |
| Other Comprehensive (Losses) Income | (31,549) | 38,815 |
| Comprehensive Income | <u><u>\$ 49,211</u></u> | <u><u>163,791</u></u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(L) Other financial assets — net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|-----------------------------|--------------------------|
| Short-term advances | \$ 723,023 | 457,750 |
| Less: Allowance for credit losses — short-term advances | (22,330) | (14,752) |
| Deposits pledged | 463,226 | 412,369 |
| Investment in debt instruments without active markets—net | 14,167,122 | 14,198,752 |
| Financial assets carried at cost—net | 2,753,979 | 2,428,400 |
| Non-accrual loans transferred from non-loan financial assets | 99,560 | 94,494 |
| Less: Allowance for credit losses— non-accrual loans transferred from non-loan financial assets | (83,847) | (79,430) |
| Others | 355,629 | 145,726 |
| Total | <u><u>\$ 18,456,362</u></u> | <u><u>17,643,309</u></u> |

Please refer to Note 6(I) for information with regard to the changes of short term advances and allowance for credit losses of non-accrual loans transferred from non-loan financial assets shown above.

Financial assets carried at cost are stock investments of the Bank and its subsidiaries. Since no active quoted market is available, nor the fair value is reliably measureable, acquisition cost is therefore adopted as the baseline for the valuation of such assets.

Investment in debt instruments without active markets are debt instruments investment of the Bank and subsidiaries. Since no active quoted market is available, acquisition amortized cost is therefore adopted as the baseline for the valuation of such assets.

Please refer to Note 8 for information with regard to the restrictions on the other financial assets shown above.

(M) Investment property — net

| Asset | December 31, 2016 | | | |
|------------|----------------------------|--------------------------|------------------------|----------------------------|
| | Cost | Accumulated depreciation | Accumulated impairment | Book value |
| Land | \$ 3,645,587 | - | 149,316 | 3,496,271 |
| Buildings | 1,433,991 | 431,397 | 48,725 | 953,869 |
| Total | <u><u>\$ 5,079,578</u></u> | <u><u>431,397</u></u> | <u><u>198,041</u></u> | <u><u>4,450,140</u></u> |
| Fair value | | | | <u><u>\$ 8,267,693</u></u> |

Changes in the cost were as follows:

| | January 1, 2016 | Current increase | Current decrease | Others | December 31, 2016 |
|-----------|--------------------|-------------------------|------------------|-----------------|-------------------------|
| Land | \$ - | 3,645,587 | - | - | 3,645,587 |
| Buildings | - | 1,433,991 | - | - | 1,433,991 |
| Total | <u><u>\$ -</u></u> | <u><u>5,079,578</u></u> | <u><u>-</u></u> | <u><u>-</u></u> | <u><u>5,079,578</u></u> |

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Changes in accumulated depreciation were as follows:

| | January 1, 2016 | Current increase | Current decrease | Others | December 31, 2016 |
|-----------|------------------------|-----------------------------|-----------------------------|---------------|--------------------------|
| Buildings | <u>\$ -</u> | <u>431,397</u> | <u>-</u> | <u>-</u> | <u>431,397</u> |

Changes in accumulated impairment losses were as follows:

| | January 1, 2016 | Current increase | Current decrease | Others | December 31, 2016 |
|-----------|------------------------|-----------------------------|-----------------------------|---------------|--------------------------|
| Land | \$ - | 149,316 | - | - | 149,316 |
| Buildings | - | 48,725 | - | - | 48,725 |
| | <u>\$ -</u> | <u>198,041</u> | <u>-</u> | <u>-</u> | <u>198,041</u> |

The fair value of investment property is based on a valuation by an independent appraiser who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The value of investment properties is estimated through application of market value method.

The Bank and its subsidiaries have no pledged investment properties.

(N) Premises and equipment — net

| December 31, 2016 | Cost | Accumulated depreciation | Accumulated impairment | Net |
|-----------------------------------|----------------------|-------------------------------------|-----------------------------------|-------------------|
| Land | \$ 11,893,572 | - | 41,383 | 11,852,189 |
| Buildings | 28,680,112 | 5,171,462 | 23,579 | 23,485,071 |
| Transportation equipment | 71,182 | 33,767 | - | 37,415 |
| Miscellaneous equipment | 7,495,794 | 3,730,928 | - | 3,764,866 |
| Construction in progress | 562,538 | - | - | 562,538 |
| Prepayment for equipment | 29,497 | - | - | 29,497 |
| Prepayment for land and buildings | 5,603,558 | - | - | 5,603,558 |
| Leased premises | 1,134,496 | 412,836 | - | 721,660 |
| Total | <u>\$ 55,470,749</u> | <u>9,348,993</u> | <u>64,962</u> | <u>46,056,794</u> |

| December 31, 2015 | Cost | Accumulated depreciation | Accumulated impairment | Net |
|-----------------------------------|----------------------|-------------------------------------|-----------------------------------|-------------------|
| Land | \$ 15,539,804 | - | 123,168 | 15,416,636 |
| Buildings | 29,036,591 | 4,735,363 | 68,158 | 24,233,070 |
| Transportation equipment | 72,232 | 30,972 | - | 41,260 |
| Miscellaneous equipment | 6,676,444 | 2,988,166 | - | 3,688,278 |
| Construction in progress | 257,280 | - | - | 257,280 |
| Prepayment for equipment | 32,717 | - | - | 32,717 |
| Prepayment for land and buildings | 5,186,297 | - | - | 5,186,297 |
| Leased premises | 1,151,621 | 263,346 | - | 888,275 |
| Total | <u>\$ 57,952,986</u> | <u>8,017,847</u> | <u>191,326</u> | <u>49,743,813</u> |

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Changes in the cost were as below:

| | January 1, 2016 | Current increase | Current decrease | Others(exchange difference) | December 31, 2016 |
|-----------------------------------|----------------------|------------------|------------------|-----------------------------|-------------------|
| Land | \$ 15,539,804 | - | 3,645,587 | (645) | 11,893,572 |
| Buildings | 29,036,591 | 1,369,219 | 1,570,587 | (155,111) | 28,680,112 |
| Transportation equipment | 72,232 | 14,590 | 10,047 | (5,593) | 71,182 |
| Miscellaneous equipment | 6,676,444 | 1,068,287 | 210,519 | (38,418) | 7,495,794 |
| Construction in progress | 257,280 | 1,298,506 | 989,350 | (3,898) | 562,538 |
| Prepayment for equipment | 32,717 | 108,281 | 111,501 | - | 29,497 |
| Prepayment for land and buildings | 5,186,297 | 418,587 | 1,326 | - | 5,603,558 |
| Leased premises | 1,151,621 | 12,377 | 32,574 | 3,072 | 1,134,496 |
| Total | <u>\$ 57,952,986</u> | <u>4,289,847</u> | <u>6,571,491</u> | <u>(200,593)</u> | <u>55,470,749</u> |

| | January 1, 2015 | Current increase | Current decrease | Others (exchange difference) | December 31, 2015 |
|-----------------------------------|----------------------|-------------------|-------------------|------------------------------|-------------------|
| Land | \$ 14,640,386 | 1,193,237 | 316,408 | 22,589 | 15,539,804 |
| Buildings | 20,339,461 | 9,160,956 | 613,521 | 149,695 | 29,036,591 |
| Transportation equipment | 60,454 | 23,503 | 11,569 | (156) | 72,232 |
| Miscellaneous equipment | 5,553,527 | 2,007,985 | 920,422 | 35,354 | 6,676,444 |
| Construction in progress | 6,993,064 | 2,503,849 | 9,242,115 | 2,482 | 257,280 |
| Prepayment for equipment | 393,945 | 561,212 | 922,440 | - | 32,717 |
| Prepayment for land and buildings | 2,030,182 | 4,349,352 | 1,193,237 | - | 5,186,297 |
| Leased premises | 314,572 | 827,855 | 22,370 | 31,564 | 1,151,621 |
| Total | <u>\$ 50,325,591</u> | <u>20,627,949</u> | <u>13,242,082</u> | <u>241,528</u> | <u>57,952,986</u> |

Changes in accumulated depreciation were as below:

| | January 1, 2016 | Current increase | Current decrease | Others (exchange difference) | December 31, 2016 |
|--------------------------|---------------------|------------------|------------------|------------------------------|-------------------|
| Buildings | \$ 4,735,363 | 981,593 | 519,802 | (25,692) | 5,171,462 |
| Transportation equipment | 30,972 | 12,855 | 7,540 | (2,520) | 33,767 |
| Miscellaneous equipment | 2,988,166 | 957,456 | 182,903 | (31,791) | 3,730,928 |
| Leased premises | 263,346 | 181,401 | 24,752 | (7,159) | 412,836 |
| Total | <u>\$ 8,017,847</u> | <u>2,133,305</u> | <u>734,997</u> | <u>(67,162)</u> | <u>9,348,993</u> |
| | January 1, 2015 | Current increase | Current decrease | Others(exchange difference) | December 31, 2015 |
| Buildings | \$ 4,149,580 | 898,255 | 359,878 | 47,406 | 4,735,363 |
| Transportation equipment | 27,764 | 13,024 | 9,181 | (635) | 30,972 |
| Miscellaneous equipment | 2,971,253 | 879,939 | 884,976 | 21,950 | 2,988,166 |
| Leased premises | 145,618 | 136,936 | 22,370 | 3,162 | 263,346 |
| Total | <u>\$ 7,294,215</u> | <u>1,928,154</u> | <u>1,276,405</u> | <u>71,883</u> | <u>8,017,847</u> |

Changes in accumulated impairment were as below:

| | January 1, 2016 | Current increase | Current decrease | Others(exchange difference) | December 31, 2016 |
|-----------|-------------------|------------------|------------------|-----------------------------|-------------------|
| Land | \$ 123,168 | 27,356 | 109,141 | - | 41,383 |
| Buildings | 68,158 | 1,813 | 46,392 | - | 23,579 |
| Total | <u>\$ 191,326</u> | <u>29,169</u> | <u>155,533</u> | <u>-</u> | <u>64,962</u> |
| | January 1, 2015 | Current increase | Current decrease | Others(exchange difference) | December 31, 2015 |
| Land | \$ 130,203 | - | 7,035 | - | 123,168 |
| Buildings | 72,436 | - | 4,278 | - | 68,158 |
| Total | <u>\$ 202,639</u> | <u>-</u> | <u>11,313</u> | <u>-</u> | <u>191,326</u> |

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On July 29, 2015, the Bank signed with Chia Tai Land Business Company Limited Taiwan Branch a contract of sale of real estate, which located in Songgao Road, Taipei City, accounted for under premises and equipment—net, buildings. The transaction price amount is \$1,068,168 and disposal gain amounted to \$728,469. The ownership transfer of real estate has been completed on September 23, 2015.

(O) Intangible assets—net

| | December 31, 2016 | December 31, 2015 |
|-------------------|--------------------------|--------------------------|
| Goodwill | \$ 10,385,891 | 10,385,891 |
| Computer software | 4,413,258 | 4,400,697 |
| Others | 1,031 | 2,063 |
| Total | \$ 14,800,180 | 14,788,651 |

Goodwill of the Bank and its subsidiaries was acquired from business combination.

Changes in intangible assets were as follows:

| | January 1, 2016 | Current increase | Current decrease | Others(exchange difference) | December 31, 2016 |
|-------------------|------------------------|-------------------------|-------------------------|------------------------------------|--------------------------|
| Goodwill | \$ 10,385,891 | - | - | - | 10,385,891 |
| Computer software | 4,400,697 | 1,284,383 | 1,310,754 | 38,932 | 4,413,258 |
| Others | 2,063 | - | 1,032 | - | 1,031 |
| Total | \$ 14,788,651 | 1,284,383 | 1,311,786 | 38,932 | 14,800,180 |

| | January 1, 2015 | Current increase | Current decrease | Others(exchange difference) | December 31, 2015 |
|-------------------|------------------------|-------------------------|-------------------------|------------------------------------|--------------------------|
| Goodwill | \$ 10,385,891 | - | - | - | 10,385,891 |
| Computer software | 4,211,778 | 1,462,872 | 1,322,221 | 48,268 | 4,400,697 |
| Others | 3,094 | - | 1,031 | - | 2,063 |
| Total | \$ 14,600,763 | 1,462,872 | 1,323,252 | 48,268 | 14,788,651 |

(P) Other assets—net

| | December 31, 2016 | December 31, 2015 |
|--|--------------------------|--------------------------|
| Prepayments | \$ 3,669,191 | 3,851,179 |
| Foreclosed properties received—net | 151,478 | 117,362 |
| Temporary payments | 74,655 | 78,571 |
| Refundable deposits—net | 19,445,660 | 30,220,370 |
| Long-term prepaid rent | 2,652,063 | 2,719,346 |
| Cash surrender value of life insurance | 1,818,490 | 1,810,915 |
| Others | 981,073 | 850,150 |
| Total | \$ 28,792,610 | 39,647,893 |

In May 2006, the Bank acquired the superficies of lots 43, 43-1, 45 and 45-1 of Jingmao Section, Nankang, Taipei, from Taiwan Fertilizer Co., Ltd. for 50 years through a public tender. The acquisition cost amounted to \$3,364,140 (including business tax and other related expenses of the superficies). The rental is determined annually at the rate of 8% of the government assessed present value and accounted under long-term prepaid rent. Please refer to Note 8 for information on performance guarantee deposits.

In order to fulfill the Bank's social responsibility, improve the image of the Bank and receive a long term benefit from advertisements, the Bank sponsored a professional baseball team by signing a sponsorship and cooperative advertisement contract with Hua Yi Entertaining Co. Ltd. on December 5, 2013, amounting to \$400,000 and accounted under prepaid

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expenses. The duration of the name of the baseball team will last for 10 years, starting from the date the Bank appointed the team name.

(Q) Deposits from Central Bank and other banks

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|--------------------------|--------------------------|
| Deposits from Central Bank | \$ 158,880 | 331,252 |
| Deposits from other banks | 21,781,325 | 14,351,432 |
| Deposits from post offices | 1,481,894 | 2,091,520 |
| Overdraft against other banks | 566,231 | 1,150,251 |
| Due to other banks | 39,510,353 | 27,709,819 |
| Total | \$ 63,498,683 | 45,634,274 |

(R) Due to Central Bank and other banks

| | December 31, 2016 | December 31, 2015 |
|-----------------------------|--------------------------|--------------------------|
| Financing from Central Bank | \$ 3,058,868 | 14,040,662 |
| Financing from other banks | 2,981,437 | 5,694,367 |
| Total | \$ 6,040,305 | 19,735,029 |

Financing from Central Bank:

(a) The Bank

| | December 31, 2016 | December 31, 2015 |
|------------------|---|---|
| Borrowings (USD) | \$ 38,710 | 51,613 |
| Interest rate | 1.22% | 0.52% |
| | 6M LIBOR | 6M LIBOR |
| Maturity date | July 26, 2019 | July 26, 2019 |
| Interest payment | semi-annually and at the maturity date | semi-annually and at the maturity date |

(b) The Tokyo Star Bank, Ltd.

| | December 31, 2016 | December 31, 2015 |
|------------------|--------------------------|--------------------------|
| Borrowings (JPY) | \$ 6,562,780 | 44,900,000 |
| Interest rate | 0~1.26% | 0.10% |
| Maturity date | September 5, 2017 | December 5, 2016 |
| Interest payment | at the maturity date. | at the maturity date. |

Financing from other banks:

(a) CTBC Bank Corp. (USA)

| | December 31, 2016 | December 31, 2015 |
|-----------------------------|--------------------------|--------------------------|
| Inter bank borrowings (USD) | \$ 75,000 | 85,000 |
| Interest rate | 0.91%~2.96% | 0.91%~2.96% |
| Maturity date | December 31, 2020 | December 31, 2020 |

(b) PT. Bank CTBC Indonesia

| | December 31, 2016 | December 31, 2015 |
|-----------------------------|--------------------------|--------------------------|
| Inter bank borrowings (IDR) | \$ 233,731,588 | \$ 1,202,467,236 |
| Interest rate | 1.37%~7.80% | 0.83%~9.83% |
| Maturity date | November 2, 2018 | November 2, 2018 |

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(S) Securities sold under repurchase agreements

| December 31, 2016 | | | | |
|--|-----------------------------|---------------------------------|---|---------------------------------------|
| Assets | Par value | Selling price (Note) | Designated repurchase amount | Designated repurchase date |
| Financial assets measured at fair value through profit or loss | \$ 7,920,000 | 7,916,658 | 7,920,000 | Before January 24, 2017 |
| Available-for-sale financial assets — net | 3,162,458 | 3,174,358 | 3,185,371 | Before February 3, 2017 |
| Held-to-maturity financial assets — net | 28,218,100 | 28,842,443 | 28,848,984 | Before April 20, 2017 |
| Total | <u>\$ 39,300,558</u> | <u>39,933,459</u> | <u>39,954,355</u> | |

| December 31, 2015 | | | | |
|--|-----------------------------|---------------------------------|---|---------------------------------------|
| Assets | Par value | Selling price (Note) | Designated repurchase amount | Designated repurchase date |
| Financial assets measured at fair value through profit or loss | \$ 6,315,000 | 6,310,295 | 6,310,508 | Before January 22, 2016 |
| Available-for-sale financial assets — net | 39,734,482 | 40,222,075 | 40,233,263 | Before February 5, 2016 |
| Held-to-maturity financial assets — net | 4,042,250 | 4,115,713 | 4,118,890 | Before June 21, 2016 |
| Total | <u>\$ 50,091,732</u> | <u>50,648,083</u> | <u>50,662,661</u> | |

Note: Recognized under securities sold under repurchase agreements.

(T) Payables

| | December 31, 2016 | December 31, 2015 |
|--|-----------------------------|--------------------------|
| Accounts payable | \$ 6,491,674 | 5,833,444 |
| Accounts payable factoring | 6,299,204 | 4,275,901 |
| Accrued expenses | 15,259,778 | 16,065,161 |
| Interest payable | 5,697,469 | 7,361,801 |
| Acceptances payable | 7,341,593 | 5,749,990 |
| Collection payable | 3,533,371 | 3,885,545 |
| Other tax payable | 637,368 | 600,906 |
| Dividends and bonuses payable | 179,630 | 150,937 |
| Checks for clearance | 4,545,509 | 2,167,937 |
| Interbank clearing payable | 738,472 | 609,555 |
| Miscellaneous lottery accounts payable | 9,415,471 | 8,087,772 |
| Construction retainage received | 14,895 | 603,241 |
| Online accounts payable | 409,174 | 314,370 |
| Securities payable | 6,638 | 1,748,948 |
| Premium payable | 3,050,776 | 943,926 |
| Other payables | 2,214,467 | 1,704,043 |
| Total | <u>\$ 65,835,489</u> | <u>60,103,477</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(U) Deposits and remittances

| | December 31, 2016 | December 31, 2015 |
|------------------------------------|--------------------------|--------------------------|
| NTD deposits | | |
| Checking accounts | \$ 8,886,955 | 8,971,872 |
| Demand deposits | | |
| Demand deposits | 163,194,824 | 176,975,351 |
| Demand savings deposits | 629,748,956 | 590,649,492 |
| Public treasury deposits | 9,521,044 | 12,004,026 |
| Subtotal of demand deposits | 802,464,824 | 779,628,869 |
| Time deposits | | |
| Time deposits | 147,097,711 | 184,822,647 |
| Time savings deposits | 429,363,919 | 411,297,923 |
| Negotiable certificates of deposit | 1,365,000 | 1,838,400 |
| Public treasury deposits | 10,170,506 | 10,205,362 |
| Others | 10,837,500 | 20,348,000 |
| Subtotal of time deposits | 598,834,636 | 628,512,332 |
| Subtotal of NTD deposits | 1,410,186,415 | 1,417,113,073 |
| Foreign currency deposits | 1,351,419,804 | 1,316,521,116 |
| Stored value cards | 167 | 167 |
| Remittances under custody | 71,608 | 97,228 |
| Remittances outstanding | 999,758 | 652,027 |
| Total | \$ 2,762,677,752 | 2,734,383,611 |

(V) Financial debentures

| Bonds | December 31, 2016 | December 31, 2015 |
|--|--------------------------|--------------------------|
| 2006-1 | \$ - | 3,100,000 |
| 2008-1 | 2,000,000 | 2,000,000 |
| 2011-1 | 12,900,000 | 12,900,000 |
| 2013-1 | - | 5,031,000 |
| 2014-1 (subordinated financial debentures) | 20,000,000 | 20,000,000 |
| 2014-2 (subordinated financial debentures) | 15,000,000 | 15,000,000 |
| 2014-1 (financial debentures) (Note 3) | - | 9,589,140 |
| 2014-2 (financial debentures) (Note 3) | - | 24,568,038 |
| 2015-1 (Note 3) | 8,295,703 | 8,497,962 |
| 2015-2 | 12,000,000 | 12,000,000 |
| 2015-3 | 5,000,000 | 5,000,000 |
| 2015-4 (Note 3) | - | 1,983,960 |
| 2016-1 (Note 3) | 25,177,620 | - |
| No.10 Callable Unsecured Bond | - | 1,703,140 |
| No.11 Callable Unsecured Bond | 578,970 | 576,870 |
| No.13 Callable Unsecured Bond | 1,654,200 | 1,648,200 |
| No.14 Callable Unsecured Bond | 551,400 | 549,400 |
| No.15 Callable Unsecured Bond | 275,700 | 274,700 |
| No.16 Callable Unsecured Bond | 303,270 | 302,170 |
| No.17 Callable Unsecured Bond | 1,130,370 | 1,126,270 |
| Adjustment for fair value increase of hedged transactions | 51,765 | 110,072 |
| Unamortized discount | (39,777) | (51,249) |
| Less: financial liability designated at fair value through profit or loss(Note 3) | (33,473,323) | (44,639,100) |
| | \$ 71,405,898 | 81,270,573 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Bonds | Terms of transactions | | | Bond issued |
|---|-----------------------|---------------|--|---|
| | Issue date | Maturity date | Interest rate | Type |
| 2006-1 | 05/17/2006 | 05/17/2016 | 2.14% | Unsecured financial debentures |
| 2008-1 | 04/10/2008 | 04/10/2023 | 3.49% | Unsecured subordinated financial debentures |
| 2011-1 | 09/27/2011 | 09/27/2021 | A=1.80%, B=1.95%. From the 4th year after the issue date, the interest rate will be the prime rate plus 0.55% (Note 1) | " |
| 2013-1 | 03/12/2013 | 03/12/2016 | 2.90% | Unsecured financial debentures |
| 2014-1 (subordinated financial debentures) | 06/18/2014 | N/A | A=3.70%, B=4.00%. | Perpetual non-accumulated subordinated financial debentures |
| 2014-2 (subordinated financial debentures) | 06/26/2014 | 06/26/2029 | A=2.00%, B=The prime rate plus 0.45%. (Note 2) | Unsecured subordinated financial debentures |
| 2014-1 (financial debentures) | 10/09/2014 | 10/09/2034 | 4.10% (Note 3) | Unsecured financial debentures |
| 2014-2 (financial debentures) | 11/26/2014 | 11/26/2044 | 0% (Note 3) | " |
| 2015-1 | 01/27/2015 | 01/27/2045 | 0% (Note 3) | " |
| 2015-2 | 06/10/2015 | N/A | 3.60% | Perpetual non-accumulated subordinated financial debentures |
| 2015-3 | 06/18/2015 | 06/18/2025 | A=1.83%, B=2.00%, C=2.05% | Unsecured subordinated financial debentures |
| 2015-4 | 07/20/2015 | 07/20/2045 | 0% (Note 3) | Unsecured financial debentures |
| 2016-1 | 11/29/2016 | 11/29/2044 | 0% (Note 3) | " |
| No.10 Callable Unsecured Bond | 09/30/2011 | 09/30/2021 | 5.25%; an interest is payable semi-annually | Unsecured subordinated financial debentures |
| No.11 Callable Unsecured Bond | 06/29/2012 | 06/29/2022 | 4.00%; an interest is payable semi-annually | " |
| No.13 Callable Unsecured Bond | 09/28/2012 | 09/28/2022 | 4.50%; an interest is payable semi-annually | " |
| No.14 Callable Unsecured Bond | 10/26/2012 | 10/26/2022 | 3.80%; an interest is payable semi-annually | " |
| No.15 Callable Unsecured Bond | 12/14/2012 | 12/14/2022 | 3.50%; an interest is payable semi-annually | " |
| No.16 Callable Unsecured Bond | 03/13/2013 | 03/13/2023 | 3.28%; an interest is payable semi-annually | " |
| No.17 Callable Unsecured Bond | 06/06/2013 | 06/06/2023 | 3.46%; an interest is payable semi-annually | " |

Note 1: The original prime rate is based on page code 6165 of Reuters, the fixed interest rate of 90-day CP/BA at 11:00 am on the interest reset date. With the consensus reached among creditors through forward rate agreement, the prime rate will be changed to the 3-month Taipei Interbank Offered Rate (TAIBOR) from January 1, 2015.

Note2: The prime rate is based on page code 6165 of Reuters, the fixed interest rate of 90-day CP/BA at 11:00 am on the interest reset date. If no quotation is available on page code 6165 of Reuters, no page is displayed, or no prime rate is retrievable from Reuters, the Bank would change the resource of the rate. The Bank would set the prime rate as Secondary Market Fixing Rate of 90-day TAIBIR 02 from the "TAIBIR Section" in the webpage of Taiwan Depository and Clearing Corporation.

Note3: Financial debentures of 2014-1, 2014-2, 2015-1, 2015-4 and 2016-1 are recognized as financial liabilities designated at fair value through profit or loss. For more information, please refer to Note 6(C).

Please refer to Note 6(E) for the information on the hedging of bonds shown above.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(W) Other financial liabilities

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|------------------------------|---------------------------|
| Lease payable | \$ 733,675 | 896,414 |
| Structured products | 126,960,940 | 135,871,541 |
| Guarantee deposit-securities lending transaction | 25,268,386 | 14,247,666 |
| Others | 3,580 | 42,889 |
| Total | <u><u>\$ 152,966,581</u></u> | <u><u>151,058,510</u></u> |

(X) Provisions

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------------|----------------------------|--------------------------|
| Settlement compensation provision | \$ 938,904 | 943,464 |
| Employee benefits provision | 4,501,648 | 4,659,629 |
| Guarantee reserve | 251,478 | 234,348 |
| Other provisions | 183,428 | 195,984 |
| Total | <u><u>\$ 5,875,458</u></u> | <u><u>6,033,425</u></u> |

Settlement compensation provision, which was the estimated amount in compliance with IAS 37, was approved by the board of directors to be appropriated for settlement compensation of structured notes, and the Bank actively negotiated with the investors.

(Y) Other liabilities

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------|----------------------------|--------------------------|
| Amount received in advance | \$ 478,579 | 786,362 |
| Payable in custody | 219,754 | 540,465 |
| Deferred income | 545,344 | 546,243 |
| Guarantee deposits received | 2,983,719 | 1,625,556 |
| Temporary receipt | 1,542,393 | 1,671,701 |
| Others | 388,055 | 203,919 |
| Total | <u><u>\$ 6,157,844</u></u> | <u><u>5,374,246</u></u> |

(Z) Employee benefits

(a) Defined contribution plan

The Bank's defined contribution plan follows the Labor Pension Act of the R.O.C. and makes monthly cash contributions to the employees' individual pension accounts at the Bureau of Labor Insurance at the rate of 6% of the employees' monthly salary. Under this plan, the Bank has no legal or constructive obligation to make other payments after the Bank makes the fixed amount of contribution to the Bureau of Labor Insurance.

For the years ended December 31, 2016 and 2015, the pension expense under defined contribution plan of the Bank and its subsidiaries amounted to \$650,504 and \$601,619, respectively, and were contributed to the Bureau of Labor Insurance or labor agencies designated by local authorities in the case of overseas units.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Employee benefits provision

Employee benefits provision recognized by the Bank in the balance sheet was as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Defined benefits plan | \$ 3,926,052 | 4,131,271 |
| Retiree deposits with favorable rates and other post-employment benefits | 241,363 | 237,442 |
| Total | <u>\$ 4,167,415</u> | <u>4,368,713</u> |

(1) Defined benefits plan

The reconciliation between present value of the Bank's defined benefits obligation and fair value of defined benefits plan assets was as below:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefits obligation | \$ 9,340,926 | 9,444,207 |
| Fair value of plan assets | (5,414,874) | (5,312,082) |
| Net defined benefit liability | <u>\$ 3,926,052</u> | <u>4,132,125</u> |

The Bank's defined benefits plan contributes to designated depository account with Bank of Taiwan. Payments of pension benefits to employees who are covered by the Labor Standards Act are calculated based on the employee's average monthly salary for the last 6 months prior to approved retirement and base point (b.p.) entitlement based on years of service.

A. Composition of plan assets

The Bank's labor pension fund contributed in compliance with Labor Standard Act is managed by Bureau of Labor Funds, Ministry of Labor. According to Regulations for Revenues, Expenditures Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statement shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Please refer to the website of Bureau of Labor Funds, Ministry of Labor for information on labor pension fund assets utilization including earnings rate and fund asset allocation.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

B. Movements in present value of the defined benefits obligation

The movements in present value of defined benefits obligation for the Bank for the years ended December 31, 2016 and 2015 were as follows:

| | For the years ended December 31 | |
|---|--|------------------|
| | 2016 | 2015 |
| Defined benefits obligation at January 1 | \$ 9,444,207 | 9,047,825 |
| Current service costs and interest | 245,308 | 308,124 |
| Remeasurements of net defined benefit liability | | |
| Actuarial gains arising from changes in financial assumptions | - | 337,204 |
| Actuarial gains arising from experience adjustments | 1,988 | 299,911 |
| Benefits paid by the plan | (350,577) | (548,857) |
| Defined benefits obligation at December 31 | \$ 9,340,926 | 9,444,207 |

C. Movements in fair value of defined benefit plan assets

The movements in fair value of the defined benefit plan assets for the Bank for the years ended December 31, 2016 and 2015 were as follows:

| | For the years ended December 31 | |
|--|--|------------------|
| | 2016 | 2015 |
| Fair value of plan assets at January 1 | \$ 5,312,082 | 5,384,454 |
| Interest income | 66,401 | 99,601 |
| Remeasurements of net defined benefit liability | | |
| Return on plan assets (exclude current interest) | 18,592 | (590) |
| Contribution plans made | 368,376 | 377,474 |
| Benefits paid by the plan | (350,577) | (548,857) |
| Fair value of plan assets at December 31 | \$ 5,414,874 | 5,312,082 |

D. Expense recognized in profit or loss

The expense recognized in profit or loss for the Bank for the years ended December 31, 2016 and 2015 were as follows:

| | For the years ended December 31 | |
|---|--|----------------|
| | 2016 | 2015 |
| Current service costs | \$ 127,256 | 140,752 |
| Net interest of net defined benefit liability | 51,651 | 67,771 |
| Total | \$ 178,907 | 208,523 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- E. Net remeasurement of defined benefit liability recognized in other comprehensive income

The net remeasurement of defined benefit liability recognized in other comprehensive income for the Bank for the years ended December 31, 2016 and 2015 were as follows:

| | For the years ended December 31 | |
|----------------------------------|--|---------------------------|
| | 2016 | 2015 |
| Cumulative amount at January 1 | \$ (1,481,780) | (847,216) |
| Recognized during the period | 15,750 | (634,564) |
| Cumulative amount at December 31 | <u><u>\$ (1,466,030)</u></u> | <u><u>(1,481,780)</u></u> |

- F. Primary actuarial assumptions

The following are the primary actuarial assumptions at the reporting date

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|---------------------------------|---------------------------------|
| Discount rate | 1.25% | 1.25% |
| Increasing rate of future compensation levels | 3.00% | 3.00% |

The Bank expected \$163,939 in contributions to be paid to defined benefit plans within a year after report date of 2016.

Weighted average duration base on defined benefits plan was 6 years.

- G. Sensitivity analysis

When adopted primary actuarial assumption changes, the effects of present value of the benefits obligation as at December 31, 2016 and 2015 were as follows:

| | Present value of the benefits obligation effects | |
|-------------------|---|------------------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| December 31, 2016 | | |
| Discount rate | (123,753) | 127,016 |
| December 31, 2015 | | |
| Discount rate | (143,215) | 147,230 |

The sensitivity analysis above analyzing the effects of changes in single assumptions is based on other assumptions remain unchanged. In practice, changes in many assumptions may link together. Sensitivity analysis and net pension liability of balance sheet were calculated under the same approach.

The methodology for sensitivity analysis and assumptions adopted are the same as last year.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Retiree deposits with favorable rates and other post-employment benefits

The reconciliation between present value of the Bank's defined benefits obligation and fair value of defined benefits plan assets were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Present value of the defined benefits obligation | \$ 241,363 | 237,442 |
| Fair value of plan assets | - | - |
| Net defined benefit liability | <u>\$ 241,363</u> | <u>237,442</u> |

The Bank's obligation to grant retirees, including current employees retiring in the future, fixed-amount deposits with favorable rates is based on the Bank's Regulations for Subsidizing the Retiree Benefits.

A. Movements in value of the defined benefits obligation

The movements in present value of defined benefits obligation for the Bank for the years ended December 31, 2016 and 2015 were as follows:

| | <u>For the years ended December 31</u> | |
|--|--|----------------|
| | <u>2016</u> | <u>2015</u> |
| Defined benefits obligation at January 1 | \$ 237,442 | 224,895 |
| Current service costs and interest | 7,536 | 7,216 |
| Past service costs | 17,458 | 26,266 |
| Remeasurements of net defined benefit liability | | |
| Actuarial losses arising from changes in demographic assumptions | (939) | (9,740) |
| Actuarial gains arising from changes in financial assumptions | 3,939 | 2,926 |
| Actuarial (losses) gains arising from experience adjustments | (7,238) | 2,966 |
| Benefits paid by the plan | (16,835) | (17,087) |
| Defined benefits obligation at December 31 | <u>\$ 241,363</u> | <u>237,442</u> |

B. Expense recognized in profit or loss

The expense recognized in profit or loss for the Bank for the years ended December 31, 2016 and 2015 were as follows:

| | <u>For the years ended December 31</u> | |
|---|--|---------------|
| | <u>2016</u> | <u>2015</u> |
| Past service costs | \$ 17,458 | 26,266 |
| Net interest of net defined benefit liability | 7,536 | 7,216 |
| Total | <u>\$ 24,994</u> | <u>33,482</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Net remeasurement of defined benefit liability recognized in other comprehensive income

The net remeasurement of defined benefit liability recognized in other comprehensive income for the bank for the years ended December 31, 2016 and 2015 were as follows:

| | For the years ended December 31 | |
|----------------------------------|---------------------------------|-----------------|
| | 2016 | 2015 |
| Cumulative amount at January 1 | \$ (37,867) | (41,715) |
| Recognized during the period | 4,238 | 3,848 |
| Cumulative amount at December 31 | <u>\$ (33,629)</u> | <u>(37,867)</u> |

D. Primary actuarial assumption

| | December 31, 2016 | | December 31, 2015 | |
|---|---------------------------------------|--------------------------------|---------------------------------------|--------------------------------|
| | Favorable rates for employee deposits | Other post-employment benefits | Favorable rates for employee deposits | Other post-employment benefits |
| Discount rate | 4.00% | 1.625% | 4.00% | 2.00% |
| Expected rate of return on deposited fund | 2.00% | 1.625% | 2.00% | 2.00% |
| Yearly rate of decrease on account balance/utilization rate on subsidy for health examination and social networking | 1.7% | 34%~71% | 1.65% | 32%~72% |
| Probability of future changes in favorable rates deposits scheme | 50.00% | - % | 50.00% | - % |

E. Sensitivity analysis

When adopted primary actuarial assumption changes, the effects of present value of the benefits obligation as at December 31, 2016 and 2015 were as follows:

| | Present value of the benefits obligation effects | |
|--|--|----------------|
| | Increase 0.25% | Decrease 0.25% |
| Favorable rates for employee deposits | | |
| December 31, 2016 | | |
| Discount rate | (4,318) | 4,523 |
| Yearly rate of decrease on account balance | (4,574) | 4,780 |
| December 31, 2015 | | |
| Discount rate | (4,303) | 4,508 |
| Yearly rate of decrease on account balance | (4,556) | 4,761 |
| Other post-employment benefits | | |
| December 31, 2016 | | |
| Discount rate | (2,907) | 3,084 |
| December 31, 2015 | | |
| Discount rate | (2,763) | 2,930 |

The sensitivity analysis above analyzing the effects of changes in single assumptions is based on other assumptions remain unchanged. In practice, changes in many assumptions may link together. Sensitivity analysis and net pension liability of balance sheet were calculated under the same approach.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The methodology for sensitivity analysis and assumptions adopted are the same as last year.

(3) Defined benefits plan of overseas branches and subsidiaries

Defined benefits plan of overseas branches and subsidiaries recognized in consolidated balance sheets were as below:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------|--------------------------|--------------------------|
| Defined benefits plan | \$ 334,233 | 290,916 |

For the years ended December 31, 2016 and 2015, expenses recognized by overseas branches and subsidiaries in profit and loss amounted to \$144,574 and \$120,547, respectively.

For the years ended December 31, 2016 and 2015, actuarial gains (losses) recognized by overseas subsidiaries in other comprehensive income amounted to \$11,661 and \$(1,781), respectively.

(AA) Income tax

(a) Income tax

For the years ended December 31, 2016 and 2015, the income tax expenses and related accounts were as follows:

| | <u>For the years ended December 31</u> | |
|------------------------------|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Current income tax expenses | \$ 4,917,718 | 5,141,093 |
| Deferred income tax expenses | 912,763 | 403,779 |
| Income tax expenses | <u>\$ 5,830,481</u> | <u>5,544,872</u> |

For the years ended December 31, 2016 and 2015, the income tax expenses (benefits) recognized under other comprehensive income were as follows:

| | <u>For the years ended December 31</u> | |
|---|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Items that will not be reclassified subsequently to profit or loss | | |
| Remeasurement losses (benefits) related to defined benefit plans | \$ 7,008 | (109,870) |
| Proportionate share of other comprehensive income from associates or joint ventures under the equity method | (378) | (523) |
| Total | <u>\$ 6,630</u> | <u>(110,393)</u> |
| Items that are or may be reclassified subsequently to profit or loss | | |
| Exchange differences of overseas subsidiaries' financial reports translation | \$ (107,581) | 100,503 |
| Unrealized valuation gains on available for sale financial assets | (302,445) | (274,811) |
| Total | <u>\$ (410,026)</u> | <u>(174,308)</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The reconciliations of income tax expenses (benefits) and net income before tax were as follows:

| | For the years ended December 31 | |
|---|--|------------------|
| | 2016 | 2015 |
| Net income before income tax | \$ 28,926,678 | 39,789,401 |
| Straight income tax | 6,355,394 | 8,642,225 |
| Effects of foreign and domestic tax rate spread | 163,844 | 125,546 |
| Tax-exempt income | (1,028,452) | (3,257,393) |
| Adjustments of prior year's income tax | 343,251 | 469,404 |
| 10% surtax on undistributed earnings | - | 29 |
| Income basic tax | - | 59,087 |
| Others | (3,556) | (494,026) |
| Income tax expense | <u>\$ 5,830,481</u> | <u>5,544,872</u> |

(b) Deferred tax assets and liabilities

Recognized deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the years ended December 31, 2016 and 2015 were as follows:

| | For the year ended December 31, 2016 | | | | |
|--|---|-------------------------------------|--|------------------------|-------------------------|
| | Beginning Balance | Recognize in profit and loss | Recognize in other comprehensive income | Others | Ending Balance |
| Proportion of gains recognized from the investments in associates and joint ventures under equity method | \$ (40,707) | (97,789) | - | - | (138,496) |
| Unrealized losses on foreign exchange and derivative financial instruments | 127,656 | 62,394 | - | 1,853 | 191,903 |
| Allowance for credit losses | 2,874,738 | 16,985 | - | (2,223) | 2,889,500 |
| Unrealized valuation (gains) losses on available-for-sale financial assets | (40,758) | - | 302,445 | (70,395) | 191,292 |
| Assets retirement losses | 519,596 | (519,596) | - | - | - |
| Impairment losses on assets | 20,931 | 1,894 | - | (9,351) | 13,474 |
| Employee benefits liability | 517,845 | (25,924) | - | (515) | 491,406 |
| Settlement compensation provision | 160,389 | (775) | - | - | 159,614 |
| Exchange differences of overseas subsidiaries' financial reports translation | 660,189 | - | 107,581 | - | 767,770 |
| Defined benefit plan actuarial losses (gains) | 258,340 | (669,864) | (7,008) | 673,475 | 254,943 |
| Loss carryforward and others | 3,301,937 | 319,912 | - | (667,395) | 2,954,454 |
| Deferred tax assets (liabilities)- net | <u>\$ 8,360,156</u> | <u>(912,763)</u> | <u>403,018</u> | <u>(74,551)</u> | <u>7,775,860</u> |
| Information disclosed in balance sheet : | | | | | |
| Deferred income tax assets | \$ 8,829,447 | | | | 8,145,564 |
| Deferred tax liabilities | (469,291) | | | | (369,704) |
| Total | <u>\$ 8,360,156</u> | | | | <u>7,775,860</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | For the year ended December 31, 2015 | | | | |
|---|--------------------------------------|------------------------------|---|----------------|------------------|
| | Beginning Balance | Recognize in profit and loss | Recognize in other comprehensive income | Others | Ending Balance |
| Proportion of losses (gains) recognized from the investments in associates and joint ventures under equity method | \$ 42,734 | (83,441) | - | - | (40,707) |
| Unrealized losses (gains) on foreign exchange and derivative financial instruments | 194,968 | (67,000) | - | (312) | 127,656 |
| Allowance for credit losses | 3,225,201 | (413,543) | - | 63,080 | 2,874,738 |
| Unrealized valuation (gains) losses on available-for- sale financial assets | (334,871) | 589 | 274,811 | 18,713 | (40,758) |
| Assets retirement losses | - | 519,596 | - | - | 519,596 |
| Impairment losses on assets | 21,331 | (727) | - | 327 | 20,931 |
| Employee benefits liability | 603,697 | (16,337) | - | (69,515) | 517,845 |
| Settlement compensation provision | 163,363 | (2,974) | - | - | 160,389 |
| Exchange differences of overseas subsidiaries' financial reportstranslation | 760,692 | - | (100,503) | - | 660,189 |
| Defined benefit plan actuarial losses (gains) | 149,992 | - | 109,870 | (1,522) | 258,340 |
| Loss carryforward and others | 3,467,749 | (339,942) | - | 174,130 | 3,301,937 |
| Deferred tax assets (liabilities)- net | \$ 8,294,856 | (403,779) | 284,178 | 184,901 | 8,360,156 |
| Information disclosed in balance sheet : | | | | | |
| Deferred income tax assets | \$ 9,181,990 | | | | 8,829,447 |
| Deferred tax liabilities | (887,134) | | | | (469,291) |
| Total | \$ 8,294,856 | | | | 8,360,156 |

- (c) The Bank's income tax returns assessed and administrative remedies filed were as below:

| | Latest year of assessment | |
|--|---------------------------|--|
| CTBC Bank Co., Ltd. | 2011 | |
| Chinatrust Bills Finance Corp. (dissolved) | 2008 | |
| CTBC Insurance Brokers Co., Ltd. (dissolved) | 2011 | |
| | Year | Recheck |
| CTBC Bank Co., Ltd. | 2010 | Interest income, amortization of goodwill and operating expenses allocation of exempt income |
| | Year | Appeal |
| CTBC Insurance Brokers Co., Ltd. (dissolved) | 2008 | Interest income |
| " | 2009 | Interest income and operating expenses allocation of exempt income |
| | Year | Litigation |
| CTBC Bank Co., Ltd. | 2007 | Interest income |
| Chinatrust Bills Finance Corp. (dissolved) | 2007 | " |
| CTBC Insurance Brokers Co., Ltd. (dissolved) | 2007 | " |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(AB) Imputation credit account

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---------------------------------------|--------------------------|--------------------------|
| (a) Imputation credit account balance | <u>\$ 3,725</u> | <u>15,045</u> |

(b) Tax deduction ratio for earnings distribution to residents in the Republic of China:

| | <u>For the year ended December 31, 2015 (actual)</u> | <u>For the year ended December 31, 2014 (actual)</u> |
|-----------------|--|--|
| Stock dividends | <u>0.21%</u> | <u>0.14%</u> |

All the ending balance of undistributed earnings incurred after 1998.

- (c) The above imputation calculation is in accordance with Tax Ruling No. 10204562810 issued by the Ministry of Finance, R.O.C. on October 17, 2013.

(AC) Capital stock, capital surplus, and other equity interest

(a) Capital stock

As of December 31, 2016, the Bank's authorized capital was \$150,000,000, representing 15,000,000 thousand common shares with par value at NTD 10 per share, and paid-in capital for common stock was \$131,125,735, with 13,112,574 thousand common shares issued.

On December 30, 2016, the Bank's board of directors, on behalf of shareholders' meeting, decided to issue common shares via private placement. The Bank issued 130,435 thousand shares at NTD 23 per share, amounting to \$3,000,000, increasing paid-in capital by \$1,304,348, with December 30, 2016 as its baseline for capital increase.

On May 26, 2016, the Bank's board of directors, on behalf of shareholders' meeting, decided a capital increase of 2,409,211 thousand shares from retained earnings which amounted to \$24,092,108, with September 3, 2016 as its baseline for capital increase.

On November 30, 2015, the Bank merged with CTBC Insurance Brokers Co., Ltd. by issuing 52,350 thousand common shares to exchange for the shares of CTBC Insurance Brokers Co., Ltd.

On May 26, 2015, the Bank's board of directors, on behalf of shareholders' meeting, decided a capital increase of 1,411,300 thousand shares from retained earnings which amounted to \$14,113,004, with August 6, 2015 as its baseline for capital increase.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Capital surplus

The components and sources of capital surplus were as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------|--------------------------|--------------------------|
| Additional paid-in capital — stock | \$ 28,607,197 | 26,911,545 |
| Share-based payment transactions | 1,184,264 | 1,184,264 |
| Others | (2,773) | (2,773) |
| Total | <u>\$ 29,788,688</u> | <u>28,093,036</u> |

In compliance with the Company Act, capital surplus can only be used to offset a deficit when surplus reserve is not sufficient to offset losses or to be distributed by issuing new shares or by cash pursuant to a resolution to be adopted by a shareholders' meeting as required in Article 241, Paragraph 1 of the Company Act. Furthermore, according to Article 72-1, Paragraph 1 of the Regulations Governing the Offering and Issuance of Securities by Securities Issuers, the amount of capital surplus to be used to increase capital shall not exceed 10% of total paid-in capital. The capital surplus arising from a capital increase can be capitalized only in the following fiscal year after being registered by the Company with the competent authority for approval.

(c) Other equity interest

Changes in the Bank's other equity interest were as below:

| | <u>Unrealized (losses) gains on available-for-sale financial assets</u> | <u>Exchange differences of overseas subsidiaries' financial reports translation</u> | <u>Changes in financial liabilities designated at fair value through profit or loss attributable to credit risk</u> | <u>Total</u> |
|--|---|---|---|--------------------|
| January 1, 2016 | \$ (761,549) | (1,719,701) | 1,614,741 | (866,509) |
| Available-for-sale financial assets | | | | |
| — net | | | | |
| — Valuation adjustment | (374,012) | - | - | (374,012) |
| — Realized amount | (1,871,638) | - | - | (1,871,638) |
| Foreign currency translation difference | | | | |
| — Exchange difference | - | (2,800,677) | - | (2,800,677) |
| — Losses on effective hedging instrument | - | 193,668 | - | 193,668 |
| Proportionate share of other comprehensive income from associates under equity method | | | | |
| — Recognized amount | 272,740 | - | - | 272,740 |
| Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk | | | | |
| — Recognized amount | - | - | (1,931,883) | (1,931,883) |
| December 31, 2016 | <u>\$ (2,734,459)</u> | <u>(4,326,710)</u> | <u>(317,142)</u> | <u>(7,378,311)</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | Unrealized (losses) gains on available-for-sale financial assets | Exchange differences of overseas subsidiaries' financial reports translation | Changes in financial liabilities designated at fair value through profit or loss attributable to credit risk | Total |
|--|---|---|--|------------------|
| January 1, 2015 | \$ (775,636) | (3,537,116) | 464,012 | (3,848,740) |
| Available-for-sale financial assets | | | | |
| — net | | | | |
| — Valuation adjustment | 1,027,549 | - | - | 1,027,549 |
| — Realized amount | (1,329,640) | - | - | (1,329,640) |
| Foreign currency translation difference | | | | |
| — Exchange difference | - | 2,586,030 | - | 2,586,030 |
| — Losses on effective hedging instrument | - | (801,547) | - | (801,547) |
| — Reclassified losses of hedging instruments to profit or loss as disposal of foreign operation | - | (6,833) | - | (6,833) |
| — Reclassified exchange differences to profit or loss as disposal of foreign operation | - | 39,765 | - | 39,765 |
| Proportionate share of other comprehensive income from associates under equity method | | | | |
| — Recognized amount | 316,178 | - | - | 316,178 |
| Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk | | | | |
| — Recognized amount | - | - | 1,150,729 | 1,150,729 |
| December 31, 2015 | <u>\$ (761,549)</u> | <u>(1,719,701)</u> | <u>1,614,741</u> | <u>(866,509)</u> |

(AD) Earnings distribution and dividend policy

As a subsidiary of CTBC Financial Holding Co., Ltd., the Bank is required to fulfill the operating fund demands of the parent company and to maintain its own capital adequacy ratio. Therefore, common stock dividends and bonuses are generally distributed as cash dividends. The Bank adopts a constant and balanced dividend policy through annual common stock dividends and distribution of bonuses.

The above mentioned methodology is merely a guideline used to select an appropriate dividend policy. In consideration of current operations and capital budget planning for the next year, an appropriate dividend distribution ratio is selected.

Annual earnings, if any, are used to pay taxes, to make certain adjustments in accordance with financial accounting standards, and to offset cumulative losses. Then 30% of the remaining earnings are appropriated as legal reserve and set provision for or reversal of special reserve according to the regulations. Subsequent to all appropriations aforesaid, the remaining balance and the undistributed earnings at the beginning period should report to the board of directors for the discussion of dividend distribution ahead of seeking approval from shareholders. Before the legal reserve balance reaches an amount equal to total paid-in capital, cash dividends are limited to 15% of total paid-in capital. When the legal reserve

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

balance reaches an amount equal to total paid-in capital, or satisfies the Article 50, paragraph 2 of the Banking Law, if the Bank is sound in both its finance and business operations and has set aside legal reserve in compliance with the Company Act, the restrictions stipulated in the preceding paragraph shall not apply.

A resolution on 2015 earnings distribution of the Bank was approved by the board of directors on May 26, 2016, and stock dividend amounted to \$24,092,108 was distributed.

A resolution on 2014 earnings distribution of the Bank was approved by the board of directors on May 26, 2015, and stock dividend and employee bonuses were distributed, amounting to \$14,113,004 and \$7,187, respectively. Nevertheless, the estimate of employee bonuses recognized in the annual financial report of 2014 was \$4,973, with \$2,214 difference. The difference is regarded as a change of accounting estimates and will reflect as a loss in the fiscal year of 2015.

Relevant information about employee bonuses approved by the board of directors on behalf of shareholders' meeting is available on Market Observation Post System or other sites.

(AE) Share based payment transactions

For the years ended December 31, 2016 and 2015, the Bank and its subsidiaries had set out the measurement principles and specific requirements for the share-based payment transactions as below:

| | Management stock appreciation rights plan for the years | | | |
|------------------------------|--|-------------|-------------|-------------|
| | 2012 | 2013 | 2014 | 2015 |
| Grant date | 02.05.2013 | 01.28.2014 | 02.06.2015 | 02.04.2016 |
| Grant number | 139,535 | 192,778 | 239,965 | 225,964 |
| Exercise period | 12.31.2015 | 12.31.2016 | 12.31.2017 | 12.31.2018 |
| Exercise price at grant date | 16.69 | 20.07 | 20.35 | 14.92 |

The Bank and its subsidiaries implement the above plan via cash settlements, yet absentee and resigned employees' stock appreciation rights will be deemed abandoned and forfeited.

Disclosures for the Bank and its subsidiaries' Employee Stock Appreciation Rights Plan (SARs):

| | For the year ended December 31, 2016 | | | | | |
|--|--|--|---------------|--|---------------|--|
| | Management stock appreciation rights plan for the years | | | | | |
| | 2013 | | 2014 | | 2015 | |
| | Number | Weighted-average exercise price | Number | Weighted-average exercise price | Number | Weighted-average exercise price |
| Outstanding at the beginning of the period | 219,857 | 15.02 | 264,076 | 16.10 | 225,964 | 13.21 |
| Granted during the period | 28,507 | 15.02 | 34,239 | 16.10 | 28,391 | 13.21 |
| Forfeited during the period | 5,215 | 15.02 | 5,921 | 16.10 | 4,690 | 13.21 |
| Exercised during the period | 243,149 | 15.02 | 257 | 16.10 | 473 | 13.21 |
| Expired during the period | - | 15.02 | - | 16.10 | - | 13.21 |
| Outstanding at the end of the period | - | 15.02 | 292,137 | 16.10 | 249,192 | 13.21 |
| Exercisable at the end of the period | - | 15.02 | - | 16.10 | - | 13.21 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| For the year ended December 31, 2015 | | | | | | |
|---|---------|---------------------------------|---------|---------------------------------|---------|---------------------------------|
| Management stock appreciation rights plan for the years | | | | | | |
| | 2012 | | 2013 | | 2014 | |
| | Number | Weighted-average exercise price | Number | Weighted-average exercise price | Number | Weighted-average exercise price |
| Outstanding at the beginning of the period | 157,773 | 12.53 | 200,026 | 16.97 | 239,965 | 18.19 |
| Granted during the period | 18,194 | 12.53 | 23,617 | 16.97 | 28,329 | 18.19 |
| Forfeited during the period | 1,000 | 12.53 | 1,863 | 16.97 | 2,350 | 18.19 |
| Exercised during the period | 174,967 | 12.53 | 1,922 | 16.97 | 1,868 | 18.19 |
| Expired during the period | - | 12.53 | - | 16.97 | - | 18.19 |
| Outstanding at the end of the period | - | 12.53 | 219,858 | 16.97 | 264,076 | 18.19 |
| Exercisable at the end of the period | - | 12.53 | - | 16.97 | - | 18.19 |

For the year ended December 31, 2016, the weighted average stock prices executed under SARs for 2013, 2014 and 2015 were \$18.00, \$18.20 and \$17.19 (in dollars), respectively.

As of December 31, 2016, the weighted average remaining durations of outstanding shares under SARs for 2014 and 2015 were 1 and 2 years, respectively.

On January 20, 2017, the Bank's board of directors has passed Management Stock Appreciation Rights Plan for the Year 2016. 186,774 units of share based payment have been granted, with the execution price of \$17.82 (in dollars). On the execution date of December 31, 2019, the plan is intended to be settled through cash payments. The Bank and its subsidiaries recognized current service costs based on the proportion of vested period in 2016.

(AF) EPS

| | For the years ended December 31 | |
|--|---------------------------------|-------------------|
| | 2016 | 2015 |
| Net income attributable to common stockholders | <u>\$ 23,092,164</u> | <u>34,240,268</u> |
| Weighted-average outstanding shares of common stock (in thousands) | <u>12,982,851</u> | <u>12,982,139</u> |
| Basic EPS (in dollars) | <u>\$ 1.78</u> | <u>2.64</u> |

Retroactive adjustments are applied to the Bank's basic EPS for the year ended December 31, 2015.

Since the Bank and its subsidiaries deal with share-based payment transactions via cash settlement, no impact is expected to be on its weighted average outstanding shares, nor does the diluted EPS need to be calculated.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(AG) Net interest income

| | For the years ended December 31 | |
|--|---------------------------------|-------------------|
| | 2016 | 2015 |
| <u>Interest income</u> | | |
| Loan | \$ 51,744,920 | 49,480,626 |
| Revolving credit | 2,472,973 | 2,641,476 |
| Securities | 7,524,518 | 6,794,016 |
| Due from Central Bank | 402,776 | 365,936 |
| Due from banks and call loans to banks | 2,054,564 | 2,184,401 |
| Hedging derivatives | 115,968 | 350,069 |
| Others | 949,986 | 2,117,217 |
| Subtotal | 65,265,705 | 63,933,741 |
| <u>Interest expense</u> | | |
| Deposit | 14,482,549 | 17,128,472 |
| Due to other banks | 478,790 | 317,577 |
| Borrowings and other financing | 2,550,610 | 3,204,031 |
| Hedging derivatives | 67,321 | 133,569 |
| Others | 363,643 | 76,296 |
| Subtotal | 17,942,913 | 20,859,945 |
| Total | \$ 47,322,792 | 43,073,796 |

Interest income and expense from financial assets and liabilities measured at fair value through profit or loss are excluded.

(AH) Service fee and commission income

| | For the years ended December 31 | |
|---------------------------------|---------------------------------|-------------------|
| | 2016 | 2015 |
| <u>Commission income</u> | | |
| Credit card business | \$ 5,427,271 | 5,198,033 |
| Wealth management business | 4,399,085 | 6,226,477 |
| Corporate business | 5,858,427 | 5,216,960 |
| Banking business | 4,694,387 | 4,538,220 |
| Insurance business | 10,250,348 | 10,937,420 |
| Lottery business | 4,848,080 | 5,676,453 |
| Others | 41,304 | 18,253 |
| Total commission income | 35,518,902 | 37,811,816 |
| <u>Service fee</u> | | |
| Credit card business | (344,542) | (288,930) |
| Wealth management business | (148,424) | (214,192) |
| Corporate business | (285,652) | (260,904) |
| Banking business | (2,143,231) | (1,909,011) |
| Lottery business | (391,321) | (433,874) |
| Others | (18,880) | (10,019) |
| Total service fee | (3,332,050) | (3,116,930) |
| Total | \$ 32,186,852 | 34,694,886 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (AI) Gains and losses on financial assets or liabilities measured at fair value through profit or loss

| | For the years ended December 31 | |
|--|--|-------------------|
| | 2016 | 2015 |
| <u>Disposal gains (losses)</u> | | |
| Commercial paper | \$ 8,144 | 16,936 |
| Treasury bills | 274 | (130) |
| Government bonds | 129,487 | 26,715 |
| Corporate bonds | 127,932 | 44,926 |
| Financial debentures | 71,204 | 67,391 |
| Convertible bonds | 40,283 | 5,151 |
| Beneficiary certificates | (14,282) | (19,481) |
| Listed and OTC securities | (71,054) | (42,864) |
| Other securities and bonds | 2,949 | 3,250 |
| Derivative financial instruments | 9,717,160 | 11,917,575 |
| Borrowed securities | (2,493) | 1,641 |
| Subtotal | 10,009,604 | 12,021,110 |
| <u>Valuation gains (losses)</u> | | |
| Commercial paper | (19,481) | (21,858) |
| Treasury bills | (158) | 240 |
| Government bonds | (686,699) | 5,107 |
| Corporate bonds | (37,480) | (77,999) |
| Financial debentures | 1,353,372 | 2,157,372 |
| Convertible bonds | 149,690 | (165,081) |
| Listed and OTC securities | (2,484) | 4,461 |
| Other securities and bonds | 37,508 | 9,670 |
| Derivative financial instruments | (2,936,421) | (1,356,874) |
| Beneficiary certificates | 1,839 | (19,905) |
| Fair value hedge adjustment | (43,089) | (91,323) |
| Negotiable certificates of deposits | 995 | - |
| Subtotal | (2,182,408) | 443,810 |
| <u>Dividend income</u> | 30,491 | 1,357 |
| <u>Interest income</u> | 674,181 | 541,479 |
| <u>Interest expense</u> | (1,807,584) | (1,800,213) |
| Total | \$ 6,724,284 | 11,207,543 |

- (AJ) Employee benefits expenses

| | For the years ended December 31 | |
|----------------------------------|--|-------------------|
| | 2016 | 2015 |
| Salary expenses | \$ 22,458,996 | 22,085,070 |
| Insurance expenses | 1,772,822 | 1,627,152 |
| Share based payment transactions | 1,508,145 | 257,862 |
| Retirement expenses | | |
| Defined contribution plan | 650,504 | 601,619 |
| Defined benefits plan | 348,475 | 362,552 |
| Other personnel expenses | 1,391,748 | 1,424,782 |
| Total | \$ 28,130,690 | 26,359,037 |

As of December 31, 2016 and 2015, numbers of the Bank and its subsidiaries' employees were 14,225 and 13,848, respectively.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(AK) Depreciation and amortization expenses

| | For the years ended December 31 | |
|--------------------------------------|---------------------------------|------------------|
| | 2016 | 2015 |
| Housing | \$ 984,903 | 898,256 |
| General equipment | 476,702 | 388,382 |
| Transportation equipment | 37,694 | 37,875 |
| Information equipment | 634,006 | 603,641 |
| Subtotal of depreciation expenses | 2,133,305 | 1,928,154 |
| Amortization of information software | 1,091,115 | 1,046,449 |
| Bond issuance expenses and others | 1,032 | 4,612 |
| Total | <u>\$ 3,225,452</u> | <u>2,979,215</u> |

(AL)Compensations of employees

Annual earnings, if any, should be appropriated 0.05% as compensations of employees. However, if there is any cumulative loss, the Bank should offset cumulative losses in priority. Compensations of employees which are recognized as current period operating expenses based on the Bank's net income before tax excluding the amount of the compensations of employees at the end of the accounting period multiplied by the estimate of remuneration distribution set by the Bank's articles of incorporation. Relevant information is available on Market Observation Post system. The estimated compensation of employees for the years ended December 31, 2016 and 2015 were \$13,498 and \$19,125, respectively. The actual compensations of employee of 2015 amounted to \$18,884, with \$241 different from the amount recognized in the annual financial report of 2015. The difference is regarded as a change of accounting estimates and will be adjusted in profit or loss in the fiscal year of 2016.

(AM)Other general and administrative expenses

| | For the years ended December 31 | |
|---|---------------------------------|-------------------|
| | 2016 | 2015 |
| Site usage and general equipment expenses | \$ 5,093,325 | 4,865,709 |
| Information equipment expenses | 1,794,910 | 1,805,233 |
| General administration expenses | 4,679,218 | 4,352,759 |
| Marketing and promotion expenses | 2,888,577 | 2,764,841 |
| Other expenses | 4,207,162 | 4,894,295 |
| Business tax | 3,160,080 | 3,481,290 |
| Total | <u>\$ 21,823,272</u> | <u>22,164,127</u> |

(AN) Financial instruments

(a) Methods and assumptions used by the Bank and its subsidiaries for fair value evaluation of financial instruments were as follows:

1. Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short maturities, the book value is adopted as a reasonable basis in estimating the fair value. The method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under reverse repurchase agreements, receivables, other financial assets, deposits from Central Bank and other banks, due to Central Bank and other banks, securities sold under repurchase agreements, payables, remittances, and other financial liabilities.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

2. If there is a quoted price in an active market for the financial asset, including financial instruments measured at fair value through profit or loss, available-for-sale, held-to-maturity financial assets, and hedging derivative financial instruments, the quoted price is regarded as its fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The estimates, hypotheses and discount rates for valuation referring to quoted prices, from financial institutions, of financial instruments have substantially the same terms and characteristics, including the credit quality of debtors, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made. Fair value of debt investments without an active market accounted for under other financial assets is determined by the quoted estimated fair value from the counterparties, and recorded in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks,” which required the amount to be booked at amortized cost. Fair value for an equity investment is determined based on either the price calculated using a valuation technique or its book value.
3. Loans and deposits are both classified as interest-bearing financial assets; therefore, the book value of financial assets is equivalent to their fair value. The net book value of the non-accrual account, after deducting provision for credit loss, is adopted as the fair value.
4. Fair value of long-term liabilities is estimated by the present value of expected future cash flows. The discount rate is based on rates of equivalent loans available elsewhere; that is, loans with similar maturity date and terms (close to the maturity date).
5. Derivatives usually adopt mark-to-model prices. The Discounted-Cash-Flow method is adopted for non-option derivatives, and the Black-Scholes model is adopted for most options.
6. The exchange price is used for financial instruments traded on an exchange. Over the counter (OTC) positions use independent price/parameter quotes by reliable brokers or data vendors, such as Reuters, Bloomberg, etc. In general, the closing price, settlement price, mid-price at a fixed cut-off time, and the average price of several independent brokers could be used as market data for valuation purposes.
7. The Bank and its subsidiaries would calculate credit valuation adjustment (CVA) by assessing probability of default (PD) and loss given default (LGD) of the counterparty before multiplying exposure at default (EAD) of the counterparty. On the contrary, debit valuation adjustment (DVA) is computed by applying probability of default of the Bank and its subsidiaries considering loss given default of the Bank and its subsidiaries before being multiplied by exposure at default of the Bank and its subsidiaries.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Bank and its subsidiaries adopt IAS39 or take any observable data into account to evaluate the probability of impairment and loss rate of allowance for doubtful accounts as the estimates of PD and LGD. In addition, mark to market assessment of a derivative instrument from Over the Counter (OTC) is applied as EAD. For those accounts have showed significant increase in credit risk, would be the CVA assessed individually by taking into account of the changes of exposures, conditions of collaterals and the recovery probabilities.

8. Except the following listed items, the book value is considered to be a reasonable basis of estimated fair value if the Bank and its subsidiaries do not measure a financial instrument at fair value.

| Financial Assets | December 31, 2016 | |
|---|--------------------------|-------------------|
| | Book value | Fair value |
| Held-to-maturity financial assets — net | \$ 126,054,037 | 126,732,393 |

| Financial Assets | December 31, 2015 | |
|---|--------------------------|-------------------|
| | Book value | Fair value |
| Held-to-maturity financial assets — net | \$ 147,667,106 | 151,666,293 |

(b) Fair value hierarchy information on financial instruments

1. The definition of fair value hierarchy

(A) Level 1

Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: (1) the products traded in the market are homogeneous, (2) willing parties are available anytime in the market, and (3) price information is available for the public.

(B) Level 2

Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market, including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The examples of observable price are as follows:

- A. The quoted price for an identical financial instrument in an active market means the fair value from the market transaction prices for an identical financial instrument. An identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of a financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the occurring market transaction prices for an identical financial instrument (the quoted prices do not represent fair value at the measurement date), the difference in transaction terms for

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financial instruments, transaction prices involving related parties, and the correlation between the observable transaction prices of identical financial instruments and the market prices of held financial instruments.

- B. The quoted market price of the same or identical financial instruments in an inactive market.
- C. The fair value is estimated on the basis of the results of a valuation technique, and the market inputs used (i.e., interest rate, yield curve, and fluctuation rate) are based on obtainable data from the market (an observable input means an input can be derived from market data and can reflect the expectation of market participants when the inputs were used in evaluating the prices of financial instruments).
- D. A majority of inputs are derived from observable market data, or the input correlation can be tested based on observable market data.

(C) Level 3

Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility).

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2. Fair value hierarchy information on financial instruments

| Assets and Liabilities | December 31, 2016 | | | |
|---|-------------------|------------|-------------|------------|
| | Total | Level 1 | Level 2 | Level 3 |
| <u>Instruments measured at fair value</u> | | | | |
| <u>Instruments measured at fair value on a recurring basis</u> | | | | |
| <u>Non-Derivative Financial Instruments</u> | | | | |
| <u>Assets and Liabilities</u> | | | | |
| Assets: | | | | |
| Financial assets measured at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| Investment in stocks | \$ 10,750 | 10,750 | - | - |
| Investment in debt instruments | 93,511,107 | 2,922,397 | 90,588,710 | - |
| Designated as financial assets measured at fair value through profit or loss | | | | |
| Investment in debt instruments | 15,921,830 | 15,391,232 | 530,557 | 41 |
| Others | 1,276,476 | - | - | 1,276,476 |
| Available-for-sale financial assets — net | | | | |
| Investment in stocks | 4,815,311 | 4,815,311 | - | - |
| Investment in debt instruments | 586,560,741 | 88,794,768 | 496,546,827 | 1,219,146 |
| Others | 3,374,254 | 2,207,300 | 1,166,954 | - |
| Liabilities: | | | | |
| Designated as financial liabilities measured at fair value through profit or loss | 28,178,587 | - | - | 28,178,587 |
| <u>Derivative Financial Instruments Assets and Liabilities</u> | | | | |
| Assets: | | | | |
| Financial assets measured at fair value through profit or loss | \$ 63,575,088 | 68,011 | 57,149,296 | 6,357,781 |
| Derivative financial assets — hedging | 416,342 | - | 416,342 | - |
| Liabilities: | | | | |
| Financial liabilities measured at fair value through profit or loss | 63,978,898 | 118,446 | 56,946,911 | 6,913,541 |
| Derivative financial liabilities — hedging | 303,599 | - | 303,599 | - |
| <u>Instruments not measured at fair value</u> | | | | |
| Held-to-maturity financial assets — net | 126,732,393 | 83,969,229 | 42,763,164 | - |
| Other financial assets- Investment in debt instruments without active markets | 14,167,122 | - | - | 14,167,122 |
| Investment property | 8,267,693 | - | - | 8,267,693 |

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| December 31, 2015 | | | | |
|---|---------------|-------------|-------------|------------|
| Assets and Liabilities | Total | Level 1 | Level 2 | Level 3 |
| <u>Instruments measured at fair value</u> | | | | |
| <u>Instruments measured at fair value on a recurring basis</u> | | | | |
| <u>Non-Derivative Financial Instruments</u> | | | | |
| <u>Assets and Liabilities</u> | | | | |
| Assets: | | | | |
| Financial assets measured at fair value through profit or loss | | | | |
| Financial assets held for trading | | | | |
| Investment in stocks | \$ 308,468 | 308,468 | - | - |
| Investment in debt instruments | 51,049,561 | 663,378 | 50,386,183 | - |
| Others | 30,977 | 30,977 | - | - |
| Designated as financial assets measured at fair value through profit or loss | | | | |
| Investment in debt instruments | 6,802,051 | - | 6,802,008 | 43 |
| Others | 1,305,554 | - | - | 1,305,554 |
| Available-for-sale financial assets—net | | | | |
| Investment in stocks | 3,895,479 | 3,895,479 | - | - |
| Investment in debt instruments | 444,014,773 | 109,647,213 | 333,932,763 | 434,797 |
| Others | 7,798,048 | 2,525,826 | 5,272,222 | - |
| Liabilities: | | | | |
| Designated as financial liabilities measured at fair value through profit or loss | 38,683,355 | - | - | 38,683,355 |
| <u>Derivative Financial Instruments Assets and Liabilities</u> | | | | |
| Assets: | | | | |
| Financial assets measured at fair value through profit or loss | \$ 81,105,512 | 27,657 | 60,964,974 | 20,112,881 |
| Derivative financial assets—hedging | 107,526 | - | 107,526 | - |
| Liabilities: | | | | |
| Financial liabilities measured at fair value through profit or loss | 88,909,223 | 45,156 | 68,078,575 | 20,785,492 |
| Derivative financial liabilities—hedging | 441,428 | - | 441,428 | - |
| <u>Instruments not measured at fair value</u> | | | | |
| Held-to-maturity financial assets—net | 151,666,293 | 124,735,603 | 26,930,690 | - |
| Other financial assets- Investment in debt instruments without active markets | 14,198,752 | - | - | 14,198,752 |

3. No instrument measured at fair value has been transferred between level 1 and level 2 by the Bank and its subsidiaries for the years ended on December 31, 2016 and 2015.

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4. Statements of changes in financial assets which were classified to Level 3 based on fair value measurement.

| For the year ended December 31, 2016 | | | | | | | | | | |
|--|----------------------|---|---|-------------------|--|--|-------------------------------|--|--|------------------|
| Items | Beginning balance | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Current increase | | Current decrease | | | Ending balance |
| | | | | | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | |
| Financial assets measured at fair value through profit or loss | | | | | | | | | | |
| Financial assets held for trading | \$ 20,112,881 | (2,311,956) | - | 980,236 | - | 128,353 | 10,832,574 | 1,719,159 | - | 6,357,781 |
| Designated as financial assets measured at fair value through profit or loss | 1,305,597 | 37,511 | 2,334 | - | - | - | 68,925 | - | - | 1,276,517 |
| Available-for-sale financial assets—net | 434,797 | - | (32,059) | - | 867,518 | - | 51,110 | - | - | 1,219,146 |
| Total | \$ 21,853,275 | (2,274,445) | (29,725) | 980,236 | 867,518 | 128,353 | 10,952,609 | 1,719,159 | - | 8,853,444 |

| For the year ended December 31, 2015 | | | | | | | | | | |
|--|----------------------|---|---|-------------------|--|--|-------------------------------|--|--|-------------------|
| Items | Beginning balance | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Current increase | | Current decrease | | | Ending balance |
| | | | | | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | |
| Financial assets measured at fair value through profit or loss | | | | | | | | | | |
| Financial assets held for trading | \$ 12,101,440 | 20,920,935 | - | 1,291,026 | - | 430,462 | 13,046,155 | 1,584,827 | - | 20,112,881 |
| Designated as financial assets measured at fair value through profit or loss | 2,275,283 | 107,443 | - | - | - | - | 1,077,129 | - | - | 1,305,597 |
| Available-for-sale financial assets—net | 842,621 | (40,543) | 11,007 | - | - | - | 378,288 | - | - | 434,797 |
| Derivative financial assets—hedging | 151,933 | (151,933) | - | - | - | - | - | - | - | - |
| Total | \$ 15,371,277 | 20,835,902 | 11,007 | 1,291,026 | - | 430,462 | 14,501,572 | 1,584,827 | - | 21,853,275 |

The policy for when to recognize the transfers in or out of Level 3 is according to the actual date of the event or change in circumstances. In the current year, the transfer of financial assets from Level 3 to Level 2 was due to a switch of valuation approach.

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5. Statements of changes in financial liabilities which were classified to Level 3 based on fair value measurement.

| For the year ended December 31, 2016 | | | | | | | | | | |
|---|----------------------|---|---|-------------------|--|--|-------------------------------|--|--|-------------------|
| Items | Beginning balance | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | Current decrease | | | Ending balance |
| | | | | | | | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | |
| Financial liabilities | | | | | | | | | | |
| measured at fair value through profit or loss | | | | | | | | | | |
| Financial liabilities held for trading | \$ 20,785,492 | (2,467,944) | - | 185,575 | - | 128,353 | 9,944,600 | 1,773,335 | - | 6,913,541 |
| Financial liabilities designated at fair value through profit or loss | 38,683,355 | 1,530,442 | (1,931,883) | - | - | - | 10,103,327 | - | - | 28,178,587 |
| Total | \$ 59,468,847 | (937,502) | (1,931,883) | 185,575 | - | 128,353 | 20,047,927 | 1,773,335 | - | 35,092,128 |

| For the year ended December 31, 2015 | | | | | | | | | | |
|---|----------------------|---|---|-------------------|--|--|-------------------------------|--|--|-------------------|
| Items | Beginning balance | The amount recognized in current net income | The amount recognized in other comprehensive income | Purchase or issue | Transfer in of Level 3 and out of other levels | Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets | Current decrease | | | Ending balance |
| | | | | | | | Sale, disposal, or settlement | Transfer in of other levels and out of Level 3 | Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities | |
| Financial liabilities | | | | | | | | | | |
| measured at fair value through profit or loss | | | | | | | | | | |
| Financial liabilities held for trading | \$ 12,100,257 | 19,642,070 | - | 2,564,312 | - | 430,462 | 12,366,782 | 1,584,827 | - | 20,785,492 |
| Financial liabilities designated at fair value through profit or loss | 30,260,239 | (3,209,535) | 1,150,729 | 10,481,922 | - | - | - | - | - | 38,683,355 |
| Total | \$ 42,360,496 | 16,432,535 | 1,150,729 | 13,046,234 | - | 430,462 | 12,366,782 | 1,584,827 | - | 59,468,847 |

The policy for when to recognize the transfers in or out of Level 3 is according to the actual date of the event or change in circumstances. In the current year, the transfer of financial liabilities from Level 3 to Level 2 was due to a switch of valuation approach.

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6. Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

Valuation techniques used by the Bank and its subsidiaries for fair value measurements of financial instruments are appropriate. However, the use of different valuation models or inputs could lead to different outcomes of fair value measurements. The following statement analyses Level 3 sensitivities for those unobservable inputs in valuation models that have a material impact on the valuation of Level 3 financial instrument. The Bank and its subsidiaries' major Level 3 financial instruments include:

- A. Back-to-back derivative transactions: the movements of fair value between financial assets and liabilities can be fully offset for back-to-back trades, so there is no material impact on the income statement.
- B. Financial debentures issued by the Bank: the sensitivity analysis based on the assumption of one basis point change in the Bank's credit spread would have the following effects on the statement of other comprehensive income.

| | | Impacts on the statement of other comprehensive income as fair value changes | |
|---|--|---|--------------------------------|
| | | Favorable changes | Unfavorable changes |
| | | <hr/> | <hr/> |
| December 31, 2016 | | | |
| <u>Liabilities</u> | | | |
| Financial liabilities measured at fair value through profit or loss | | | |
| loss | | | |
| Designated as financial liabilities measured at fair value through profit or loss | | | |
| | | \$ 51,828 | (51,674) |
| | | <hr/> | <hr/> |
| December 31, 2015 | | | |
| <u>Liabilities</u> | | | |
| Financial liabilities measured at fair value through profit or loss | | | |
| loss | | | |
| Designated as financial liabilities measured at fair value through profit or loss | | | |
| | | \$ 60,988 | (60,734) |
| | | <hr/> | <hr/> |

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7. Quantitative information about the significant unobservable inputs in Level 3

Quantitative information about the significant unobservable inputs was as follows:

| December 31, 2016 | | | | | |
|---|--------------|------------------------------------|---------------------------------------|-----------------|---|
| | Fair value | Valuation technique | Key unobservable inputs | Range of inputs | The relation between inputs and fair value |
| <u>Recurring fair value measurements</u> | | | | | |
| <u>Non-Derivative Financial Instruments Assets and Liabilities</u> | | | | | |
| Assets: | | | | | |
| Financial assets measured at fair value through profit or loss | | | | | |
| Designated as financial assets measured at fair value through profit or loss | \$1,276,517 | Discounted cash flow model | Default rate | 8.8%~20% | The higher default rate, the lower fair value |
| Available-for-sale financial assets—net | | | | | |
| Investment in debt instruments | 1,219,146 | Discounted cash flow model | Interest rate | 0.82%~1.00% | The lower interest rate, the higher fair value |
| Liabilities: | | | | | |
| Designated as financial liabilities measured at fair value through profit or loss | 28,178,587 | Interest rate option pricing model | Credit risk parameters | 1.32%~1.88% | The higher credit risk parameters, the lower fair value |
| <u>Derivative Financial Instruments Assets and Liabilities</u> | | | | | |
| Assets: | | | | | |
| Financial assets measured at fair value through profit or loss | 6,357,781 | Interest rate option pricing model | Interest rate correlation coefficient | 60%~80% | The higher correlation coefficient, the lower fair value |
| Liabilities: | | | | | |
| Financial liabilities measured at fair value through profit or loss | 6,913,541 | Interest rate option pricing model | Interest rate correlation coefficient | 60%~80% | The higher correlation coefficient, the higher fair value |
| | | | | | |
| December 31, 2015 | | | | | |
| | Fair value | Valuation technique | Key unobservable inputs | Range of inputs | The relation between inputs and fair value |
| <u>Recurring fair value measurements</u> | | | | | |
| <u>Non-Derivative Financial Instruments Assets and Liabilities</u> | | | | | |
| Assets: | | | | | |
| Financial assets measured at fair value through profit or loss | | | | | |
| Designated as financial assets measured at fair value through profit or loss | \$ 1,305,597 | Discounted cash flow model | Loss rate | 0.11%~7.00% | The higher loss rate, the lower fair value |
| Available-for-sale financial assets—net | | | | | |
| Investment in debt instruments | 434,497 | Discounted cash flow model | Interest rate | 1.00%~2.00% | The lower interest rate, the higher fair value |
| Liabilities: | | | | | |
| Designated as financial liabilities measured at fair value through profit or loss | 38,683,355 | Interest rate option pricing model | Credit risk parameters | 1.03%~1.59% | The higher credit risk parameters, the lower fair value |
| <u>Derivative Financial Instruments Assets and Liabilities</u> | | | | | |
| Assets: | | | | | |
| Financial assets measured at fair value through profit or loss | 20,112,881 | Interest rate option pricing model | Interest rate correlation coefficient | 71%~82% | The higher correlation coefficient, the lower fair value |
| Liabilities: | | | | | |
| Financial liabilities measured at fair value through profit or loss | 20,785,492 | Interest rate option pricing model | Interest rate correlation coefficient | 71%~82% | The higher correlation coefficient, the higher fair value |

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8. The valuation process to level 3 financial instruments

Market risk management unit is responsible for independent model validation, with using and confirming the reliable for independent market data, calibrating valuation model on a regular basis, executing back testing, as well as applying any fair value adjustments if necessary to ensure the valuation results are reasonable.

(c) For the years ended December 31, 2016 and 2015, unrealized (losses) gains due to the estimated change of fair value recognized by the Bank and its subsidiaries were \$(1,453,151) and \$449,872, respectively.

(d) Financial risk information

The major objective of the risk management of the Bank and its subsidiaries is to control the risk under the scope approved by the board of directors by using effective management methods to utilize resource and create maximum economic profit. For major risks, the Bank and its subsidiaries have established the risk management policies to serve as its primary principle, which covers managerial objective, organizational structure, accountability, and risk management procedures, and by implementing these mechanisms, operational risks can be controlled at an acceptable level.

The organization structure of risk management includes Board of Directors, General Auditor, Risk Management Committee, Senior Management and Global Risk Management Group. The scope of their authorities illustrates as follow:

Board of Directors, who is in charge of risk strategy approval, risk policies, risk management frameworks, and creating a culture of risk management, serves as the primary guidance for all risks and undertakes ultimate responsibility of overall risk management.

General Auditor is responsible for planning and carrying out all kind of audit business and is directly accountable to the Board. The internal auditing unit under the General Auditor must regularly review and assess the integrity and actual implementation on various kinds of risk management mechanism, and timely provide suggestions for improvement so that the risk management mechanism can be run continually effectively.

Risk Management Committee assists the Board in risk governance, by communicating, reporting, and recommendations; Risk Management Committee also builds appropriate risk authorization and will monitor and ensure risk authorization operates properly. We expect the senior managers to support the Bank's culture of risk management, through decision-making processes and leader's supportive behavior, and thus influence all employees and organization.

Senior Management is responsible for supervising and ensuring risk authorization system operates properly in accordance with the direction of the board approved.

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Global Risk Management Group is responsible for planning and managing the Bank's risk profiles which include credit, market, operations, interest and liquidity risks of the banking book, and developing proper policies and strategies relating to risk identification, measurement, control, and management.

1. Market Risk Management

Definition and sources of market risk management

Market risk is the risk that the Bank and its subsidiaries' earnings or capital or its ability to meet business objectives will be adversely affected by changes in the level, volatility or correlation of market risk factors, such as interest rate (including credit spread), foreign exchange rate, securities price and commodity price. The market correlation and liquidity of these types of instruments are also covered.

The market risk of the Bank and its subsidiaries arises from either trading or non-trading portfolios. The trading portfolio includes positions arising from trading activities, which aim at benefiting from short-term price movements, such as proprietary trading and market making. The non-trading portfolio includes positions not held for the purpose of earning capital gains.

The market risk management framework for trading and non-trading portfolios is described as follows:

A. Trading Portfolios Management

a. Objective

The Market Risk Management Policy is the cornerstone of managing market risk-taking activities in the Bank and its subsidiaries. The Policy is developed to establish definite market risk management mechanisms of financial transaction, to facilitate market risk communication within the Bank and its subsidiaries, and to provide proper management.

b. Market Risk Management Procedure and Measurement

(A) Management Procedures

(a) Risk identification

Risk-taking unit shall identify the market risk of financial instruments, and this should be clearly stated in the relevant product program documentation. Market risk management unit (MRMU) executes the identification of market risk independently.

(b) Risk measurement

MRMU shall define appropriate and consistent market risk measurement methodologies in line with the business characteristics and risk source to properly evaluate the primary market risk exposure. The risk measurement shall be applied to

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daily management and shall serve as a foundation for market risk planning, monitoring, and controlling.

Valuation approach and market data adoption for calculating P/L, risk sensitivities, Value at Risk (VaR), stress testing should be approved by MRMU.

(c) Risk controlling

Market risk limit is a tool for authorizing and controlling specific forms of market risk arising from the trading activities of the Bank and its subsidiaries to ensure that the Bank and its subsidiaries are not exposed to market risk beyond the risk appetite. Market risk limit management procedures, such as the establishment, approval, exception management and limit excess treatment, etc., shall comply with the relevant market risk management documents.

(d) Risk reporting

Market risk reporting is an effective risk communication tool. MRMU shall submit market risk management reports to senior managers on a daily basis and periodically report the integrated market risk profile to senior executives and the Board to evaluate risk concentration and capacity of the Bank and its subsidiaries and to form necessary risk adjusting strategies.

(B) Risk Measurement Approaches

(a) Value at Risk, VaR

The VaR model is developed as a quantitative technique for internal risk management purpose, and will be continually refined to meet the quantitative and qualitative standards of IMA (Internal Model Approach) requirements.

(b) Stress Testing

Stress testing is used to calculate a range of trading exposures which result from extreme market events or scenarios. Stress testing measures the impact of exceptional changes in market rate/price, volatility or correlation in the fair value of trading portfolios as a supplement to VaR which is unable to capture the tail risk.

(c) Factor Sensitivity

Factor sensitivity is a measurement for monitoring the cross-product exposures within each risk type, including but not limited to foreign exchange, interest rate, equity, commodity, and credit.

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c. Market Risk Mitigation and Hedging

The Bank and its subsidiaries' trading portfolios include spots and derivatives. The derivatives are employed to reduce spots exposure or combined with other derivatives to form trading strategy. MRMU evaluates and controls the mitigation effectiveness between trading positions and its' hedge positions by using risk measurement tools, such as VaR, risk sensitivities, etc.

d. Interest Rate Risk Management

(A) Definition

Interest rate risk arises from adverse changes in interest rates. Primary interest rate related instruments held in the Bank and its subsidiaries' trading portfolios include bonds and interest rate derivatives, such as interest rate swaps, caps/floors, and swaptions.

(B) Management Procedure

In order to effectively control the interest rate risk in the trading portfolios, the Bank and its subsidiaries control interest rate risk by setting limits in different yield curves and currencies depending on its own business development and management needs.

(C) Measurement Approach

PVBP, the change in fair value as the yield curve parallel shifts up by 0.01% (1bp), is used to measure interest rate risk exposures of the Bank and its subsidiaries' trading portfolios.

| Unit : In Thousands of New Taiwan Dollars | | | |
|---|----------|-------------------|-------------------|
| | Currency | December 31, 2016 | December 31, 2015 |
| <u>Yield curve parallel shift of +0.01%</u> | | | |
| | CNY | \$ (126) | (128) |
| | EUR | (75) | 28 |
| | HKD | (226) | (824) |
| | JPY | (5) | (315) |
| | NTD | (761) | (3,486) |
| | USD | 3,281 | 1,611 |
| | Others | (501) | (274) |

e. Foreign Exchange Risk

(A) Definition

Foreign exchange risk arises from adverse changes in exchange rates. Primary foreign exchange instruments held in the Bank and its subsidiaries' trading portfolios include spots, forwards, and currency options.

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(B) Management Procedure

In order to effectively control the foreign exchange risk for the trading portfolios, the Bank and its subsidiaries control foreign exchange risk by setting limits in different currencies or currency pairs depending on its own business development and management needs.

(C) Measurement Approach

FX Delta, the change in net present value as the foreign exchange rate moves up by one unit, 1%, is used to measure foreign exchange risk exposure of the Bank and its subsidiaries' trading portfolios.

| Underlying currency upward movement by 1% | Currency | Unit : In Thousands of New Taiwan Dollars | |
|--|----------|---|-------------------|
| | | December 31, 2016 | December 31, 2015 |
| | AUD | \$ (229) | (894) |
| | CNY | (24,122) | (139,940) |
| | EUR | (408) | 6,167 |
| | GBP | 74 | 334 |
| | HKD | (2,628) | (15,292) |
| | JPY | (4,044) | (1,136) |
| | KRW | (3,063) | (360) |
| | USD | 30,406 | 240,032 |
| | Others | 3,554 | (18,191) |

f. Other Risk Factor Sensitivities

(A) Equity Factor Sensitivity (Equity delta)

Equity Delta is the change in fair value as the underlying stock price or index price moves up by 1%. Primary equity instruments held in the Bank and its subsidiaries' trading portfolios include stocks, convertible bonds, equity index futures and options.

(B) Commodity Factor Sensitivity (Commodity delta)

Commodity Delta is the change in fair value as the underlying commodity price moves up by 1%. Primary commodity instruments held in the Bank and its subsidiaries' trading portfolios include derivatives in gold and crude oil.

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(C) Credit Spread Factor Sensitivity (CR01, Credit 01)

CR01 is the change in fair value as the credit spread shift up by 0.01% (1bp). Primary credit-linked instruments held in the Bank and its subsidiaries' trading portfolios include credit default swaps.

| Equity factor sensitivity (Equity delta) | Country /Commodity | December 31, 2016 | December 31, 2015 |
|---|-----------------------|-------------------|-------------------|
| Equity Factor Sensitivity | | | |
| Stock price or index upward movement by 1% | Taiwan | \$ 455 | 454 |
| | Hong Kong | - | 1,120 |
| | USA | - | 510 |
| | Others | 316 | 1,576 |
| Commodity Factor Sensitivity | | | |
| Commodity price upward movement by 1% | Crude Oil | (436) | - |
| | Gold | 4 | 50 |
| | Copper | 40 | - |
| Credit Spread Factor Sensitivity | | | |
| Credit spread upward shift by 0.01% | | 120 | (170) |

B. Management Mechanism of Non-Trading Purpose Investment Portfolio

a. Management of Non-Trading Purpose Interest Rate Risk

(A) Definition of Non-Trading Purpose Interest Rate Risk

Non-trading purpose interest rate risk of the Bank and its subsidiaries refer to the impact on the profit or the equity of non-trading purpose interest rate sensitive assets and liabilities when interest rate changes.

Interest rate risk mainly stems from different sensitivity of assets and liabilities to interest rate change. Such risk could arise from mismatches of repricing timing amount of asset and liability, varying magnitude of changes in short-term and longer-term interest rates, various interest rate indexes to which asset and liability are linked, or embedded options.

(B) Management Objective of Non-Trading Purpose Interest Rate Risk

The "Asset and Liability Management Policy" is the highest guideline of managing the Bank and its subsidiaries' non-trading purpose interest rate risk. The Policy defines the authorities, responsibilities and management procedures. Through the Funds Transfer Mechanism (FTP) and funding activities, the Bank and its subsidiaries navigate the asset and liability structure to keep the interest risk exposure within the risk appetite, attain a balanced risk profile and maximize shareholder value.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Management Procedures and Risk Measurement of Non-Trading Purpose Interest Rate Risk.

In order to earn stabilized profits, the Bank and its subsidiaries control the interest rate risk by keeping the interest rate exposures within the limit approved by the Board, centralizing the interest rate risk from business unit to specified unit through the Match-Term Fund Transfer Mechanism, and adjusting the funding positions proactively.

The measurement includes on balance sheet banking book interest-sensitive asset and liabilities, non-trading purpose financial instruments, and interest rate related derivatives which apply hedge accounting.

Interest rate risk monitoring unit periodically conducts the risk reports, which contain the analysis of limit usage, interest rate risk sensitivity and stress test. The risk report shall periodically be submitted to related risk management meetings.

The Bank and its subsidiaries frequently measure interest rate risks by the following tools:

- (a) Repricing Gap Report : This report measures the repricing gap between asset and liability by various time buckets in order to understand interest rate mismatch.
- (b) Interest Rate Sensitivity :
 - 1. Asset and Liability Mismatch: This measures the impact of 1 basis point change in interest rate on net interest income (NII) and that on economic value of equity (EVE). The analysis of such impact on NII ($1bp \triangle NII$) focuses on changes in interest income and expense within a year; hence, this analysis is of a short-term perspective. The analysis of such impact on EVE ($1bp \triangle EVE$) is of a long-term perspective as it focuses on changes of economic value which will become net interest income received every year later on.
 - 2. Non-trading purpose financial instruments specified: Use the PVBP to measure the impact of 1 basis point change in interest rate on fair value.
- (c) Stress Test : This evaluates the impact of a significant change in interest rate on EVE. The test results will be compared with capital in order to examine the appropriateness of exposure.
- (d) (Non-trading purpose financial instruments specified) Profit and Loss: This evaluates the market value of financial instrument, aim to keep the impact on earnings or equity within the Bank and its subsidiaries risk appetite.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(D) Risk Mitigation and Hedge of Non-Trading Purpose Interest Rate Risk

The Bank and its subsidiaries set limits to manage risk. When an excess of limit is confirmed, risk monitoring unit analyzes the impact, coordinates funding management unit and other related units to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

The Bank and its subsidiaries may adjust the interest rate risk exposure by adjusting the asset and liability structures or entering derivative with external counterparties. Prior to executing an external hedge, the hedge plan with specified hedged position, profit and loss analysis and detailed scheme shall gain approval from the limit authority. After a hedge executed, risk management unit shall periodically review the hedge execution and its effectiveness, and report to the limit authority depending on the impact.

b. Management of Non-Trading Purpose Foreign Exchange Rate Risk

(A) Definition and Sources of Non-Trading Purpose Foreign Exchange Rate Risk

Non-trading purpose foreign exchange (FX) rate risk of the Bank and its subsidiaries refer to the impact on the profit or loss due to fluctuation of FX rate on the following non-trading purpose FX positions:

- (a) Realized FX gains/ losses of all non-trading purpose transactions, such as interest income/ expenses of foreign-currency denominated loans/ deposits. Unrealized foreign currency gains and losses of “available-for-sale” positions are not included.
- (b) Non-trading purpose foreign-currency positions such as current-period foreign-currency gains/ losses of money market swap.

(B) Management Objective of Non-Trading Purpose Foreign Exchange Rate Risk

The “Asset and Liability Management Policy” is the highest guideline of managing the Bank and its subsidiaries’ non-trading purpose FX risk. The Policy defines the authorities, responsibilities and management procedures, by which keep FX exposures within the risk appetite.

(C) Management Procedure and Risk Measurement of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries identify, measure, monitor, and report the FX risk through the thorough risk management framework and

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

procedure. To control the FX risk, the Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy and sweep FX risk centrally from business units to designated FX management unit. For overseas branches without a specified FX management unit, FX positions will be centrally managed by the Funding Management Unit. The risk factor which measures non-trading purpose Foreign Exchange Risk is “FX Delta”, which measures the impact on the profit and loss when FX rate changes.

(D) Risk Mitigation and Hedge of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries set the limits and control mechanisms to manage the FX risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

Prior to executing an external hedge, the hedge plan with specified hedged position, profit and loss analysis and detailed scheme shall gain approval from the limit authority. After a hedge executed, risk management unit shall periodically review the hedge execution and its effectiveness, and report to the limit authority depending on the impact.

c. Management of Non-Trading Purpose Equity Risk

(A) Definition and Sources of Non-Trading Purpose Equity Risk

Non-trading purpose equity risk of the Bank and its subsidiaries refer to the impact on the profit or loss due to equity price fluctuation of non-trading purpose equity positions.

(B) Management Objective of Non-Trading purpose Equity Risk

The “Asset and Liability Management Policy” is the highest guideline of managing the Bank and its subsidiaries’ non-trading purpose equity risk. The Policy defines the authorities, responsibilities and management procedures, by which keep equity exposures within the risk appetite and prevent severe impact on profit or owner equity.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Management Procedure and Risk Measurement of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and its subsidiaries identify, measure, monitor, and report the equity risk through the thorough risk management framework and procedure. To control the equity risk, the Bank and its subsidiaries periodically monitor the risk exposure according to the approved limit hierarchy. The major aspects of Equity limits include the position limit and the year to date loss trigger.

(D) Risk Mitigation and Hedge of Non-Trading Purpose Equity Risk

The Bank and its subsidiaries set the limits and control mechanisms to manage the equity risk. When an excess of limit is confirmed, business unit will explain the reason; risk monitoring unit analyzes the impact, coordinates business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

d. Factor Sensitivity Analysis

Factor sensitivity analysis by the Bank and its subsidiaries summarized as below:

| December 31, 2016 | | | |
|----------------------------|--|-----------------|----------|
| Risk Items | Movement | Amount | |
| | | Profit and Loss | Equity |
| Interest Rate Risk | Interest rate curve shift up 1bp | 103,168 | (62,116) |
| | Interest rate curve shift down 1bp | (103,168) | 62,116 |
| Foreign Exchange Rate Risk | Foreign currency appreciate 1% against NTD | 250 | - |
| | Foreign currency depreciate 1% against NTD | (250) | - |
| Equity Price Risk | Equity price appreciate 1% | - | 75,476 |
| | Equity price depreciate 1% | - | (75,476) |

| December 31, 2015 | | | |
|----------------------------|--|-----------------|-----------|
| Risk Items | Movement | Amount | |
| | | Profit and Loss | Equity |
| Interest Rate Risk | Interest rate curve shift up 1bp | 106,473 | (66,135) |
| | Interest rate curve shift down 1bp | (106,473) | 66,135 |
| Foreign Exchange Rate Risk | Foreign currency appreciate 1% against NTD | 164 | - |
| | Foreign currency depreciate 1% against NTD | (164) | - |
| Equity Price Risk | Equity price appreciate 1% | - | 117,008 |
| | Equity price depreciate 1% | - | (117,008) |

Note: When a fair value hedge or hedge of a net investment in a foreign operation is in conformity with all the conditions for applying hedge accounting, the mentioned positions will not be covered by summarized details above. Because the affected profit or loss is recognized by offsetting the changes in the fair value of hedging instruments and hedged items.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

C. Foreign exchange rate gap information

According to IFRS 7 “Financial Instruments” paragraph No. 34(a), an entity shall disclose summarized quantitative data about its exposure to that risk at the end of the reporting period. Significant foreign exchange rate risk exposure of the Bank and its subsidiaries were as below:

| December 31, 2016 | | | |
|-------------------------------------|-------------------------|------------------|-------------------|
| | Foreign currency | Spot rate | NTD amount |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 26,864,427 | 32.2790 | 867,156,836 |
| JPY | 2,662,316,616 | 0.2757 | 734,000,691 |
| CNY | 24,958,659 | 4.6445 | 115,920,490 |
| EUR | 196,412 | 33.9285 | 6,663,975 |
| AUD | 999,888 | 23.3022 | 23,299,579 |
| <u>Non-monetary items</u> | | | |
| USD | 26,808 | 32.2790 | 865,346 |
| JPY | 11,912,897 | 0.2757 | 3,284,386 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 26,377,509 | 32.2790 | 851,439,616 |
| JPY | 2,589,101,127 | 0.2757 | 713,815,181 |
| CNY | 24,918,651 | 4.6445 | 115,734,676 |
| EUR | 225,305 | 33.9285 | 7,644,267 |
| AUD | 994,675 | 23.3022 | 23,178,106 |
| December 31, 2015 | | | |
| | Foreign currency | Spot rate | NTD amount |
| <u>Financial assets</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 24,205,828 | 33.0660 | 800,389,922 |
| JPY | 4,449,792,779 | 0.2747 | 1,222,358,076 |
| CNY | 25,966,387 | 5.0937 | 132,264,986 |
| EUR | 454,985 | 36.1411 | 16,443,661 |
| AUD | 655,217 | 24.1613 | 15,830,904 |
| <u>Non-monetary items</u> | | | |
| USD | 24,897 | 33.0660 | 823,239 |
| JPY | 29,325,801 | 0.2747 | 8,055,798 |
| <u>Financial liabilities</u> | | | |
| <u>Monetary items</u> | | | |
| USD | \$ 24,821,800 | 33.0660 | 820,757,633 |
| JPY | 4,324,117,242 | 0.2747 | 1,187,835,006 |
| CNY | 30,988,110 | 5.0937 | 157,844,137 |
| EUR | 560,033 | 36.1411 | 20,240,201 |
| AUD | 653,036 | 24.1613 | 15,778,193 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

D. Disclosure items required by the “Regulations Governing the Preparation of Financial Reports by Public Banks”

a. Interest rate sensitivity information

(A) Sensitivity analysis of interest rate for assets and liabilities (New Taiwan Dollars)

December 31, 2016

Unit : In Thousands of New Taiwan Dollars, %

| Items | 1~90 days (inclusive) | 91~180 days (inclusive) | 181 days~1 year (inclusive) | Over 1 year | Total |
|--|--------------------------|----------------------------|--------------------------------|-------------|---------------|
| Interest rate sensitive assets | \$ 1,456,976,315 | 133,901,275 | 66,709,907 | 108,514,252 | 1,766,101,749 |
| Interest rate sensitive liabilities | 419,040,873 | 875,434,437 | 145,739,307 | 69,649,314 | 1,509,863,931 |
| Interest rate sensitivity gap | 1,037,935,442 | (741,533,162) | (79,029,400) | 38,864,938 | 256,237,818 |
| Net worth | | | | | 253,014,052 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 116.97 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 101.27 |

December 31, 2015

Unit : In Thousands of New Taiwan Dollars, %

| Items | 1~90 days (inclusive) | 91~180 days (inclusive) | 181 days~1 year (inclusive) | Over 1 year | Total |
|--|--------------------------|----------------------------|--------------------------------|-------------|---------------|
| Interest rate sensitive assets | \$ 1,348,255,026 | 83,781,357 | 45,753,090 | 115,573,465 | 1,593,362,938 |
| Interest rate sensitive liabilities | 462,514,675 | 850,575,000 | 144,510,047 | 67,683,780 | 1,525,283,502 |
| Interest rate sensitivity gap | 885,740,351 | (766,793,643) | (98,756,957) | 47,889,685 | 68,079,436 |
| Net worth | | | | | 233,410,926 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 104.46 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | 29.17 |

Note :

1. The aforementioned are the Bank's position denominated in NTD, and do not include contingent asset or liabilities.
2. Interest rate sensitive assets and liabilities are the interest-earning asset or interest-bearing liabilities whose revenue or costs are affected by interest rate change.
3. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities.
4. Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets / Interest-rate-sensitive liabilities (denominated in NTD)

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(B) Sensitivity analysis of interest rate for assets and liabilities (USD)

December 31, 2016

Unit : In Thousands of U.S. Dollars, %

| Items | 1~90 days (inclusive) | 91~180 days (inclusive) | 181 days~1 year (inclusive) | Over 1 year | Total |
|--|--------------------------|----------------------------|--------------------------------|-------------|-------------|
| Interest rate sensitive assets | \$ 10,595,334 | 668,753 | 641,701 | 1,634,634 | 13,540,422 |
| Interest rate sensitive liabilities | 5,812,663 | 10,471,604 | 1,254,484 | 1,101,899 | 18,640,650 |
| Interest rate sensitivity gap | 4,782,671 | (9,802,851) | (612,783) | 532,735 | (5,100,228) |
| Net worth | | | | | 7,838,349 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 72.64 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | (65.07) |

December 31, 2015

Unit : In Thousands of U.S. Dollars, %

| Items | 1~90 days (inclusive) | 91~180 days (inclusive) | 181 days~1 year (inclusive) | Over 1 year | Total |
|--|--------------------------|----------------------------|--------------------------------|-------------|------------|
| Interest rate sensitive assets | \$ 13,019,716 | 912,386 | 674,756 | 1,403,221 | 16,010,079 |
| Interest rate sensitive liabilities | 5,231,416 | 10,090,700 | 1,125,664 | 80,969 | 16,528,749 |
| Interest rate sensitivity gap | 7,788,300 | (9,178,314) | (450,908) | 1,322,252 | (518,670) |
| Net worth | | | | | 7,058,940 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 96.86 |
| Ratio of interest rate sensitivity gap to net worth (%) | | | | | (7.35) |

Note :

1. The aforementioned are the Bank's position denominated in USD, and do not include contingent asset or liabilities.
2. Interest rate sensitive assets and liabilities are the interest-earning asset or interest-bearing liabilities whose revenue or costs are affected by interest rate change.
3. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities.
4. Ratio of interest rate sensitive assets to liabilities = Interest rate sensitive assets / Interest rate sensitive liabilities (denominated in USD)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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2. Credit Risk Management

A. Definition and Sources of Credit Risk Management

Credit risk of the Bank and its subsidiaries is the risk of financial loss if a client, guarantor or counterparty fails to meet its contractual obligations. Credit risk arises from both on-balance-sheet items and off-balance-sheet items. On-balance-sheet items include Loan, Discounting bills and notes, Credit Card, Due from Central Bank and Call loans to banks, Debt Investment and Derivatives Transaction and so on. Off-balance-sheet items mainly include Guarantees, Bank Acceptance, Letter of Credit and Loan Commitments.

B. Objectives of Credit Risk Management

The objective of credit risk management of the Bank and its subsidiaries is minimizing the potential financial losses by appropriate strategies, policies and procedures. By strengthening credit risk management framework, which is transparent, systematic, professional and well-established, credit risk management is rooted in its corporate governance to reinforce business performance and improve shareholder's equity.

C. Credit Risk Management Process and Credit Risk Measurement

a. Credit Risk Management Process

(A) Risk Identification

Credit risk comes from the default risk and significant decline in credit quality of a credit client, change on collateral value or the default risk of derivatives counterparty. Credit risk factors identification shall consider not only internal business operations but also external environmental changes.

(B) Risk Measurement

In order to appropriately evaluate and monitor obligor's credit risk, the Bank and its subsidiaries implement the internal rating system factored in the characteristics of obligors and products to quantify it. The corresponding policies and procedures are established and the regular model validation mechanism is executed to ensure the appropriateness and effectiveness of the model. Credit risk management policy and experienced credit officers' judgment supplement the credit rating application on credit approval, facility management and performance analysis, etc.

(C) Risk Monitoring

To ensure credit risk is under control, the Bank and its subsidiaries have established credit risk limit management mechanism and set up the information management system to monitor the credit risk portfolio and risk concentration situation. The Bank and its

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

subsidiaries have developed comprehensive credit process, such as credit extension and annual review procedure, loan review mechanism, guideline for early-warning and watch-list accounts, guideline for collateral appraisal and management, rules of pre-settlement risk mitigation, procedure for bad loan management, guideline for provision allowance and so on to reduce the probability of loss and ensure our claim on exposure.

(D) Risk Reporting

Risk management unit periodically prepares credit risk portfolio/management report and submits these reports to senior management. The reports disclose the Bank and its subsidiaries' credit risk profile from various dimensions, such as credit quality, portfolio concentration, industry sector exposure, scorecard model validation result, etc.

b. Measurement of Credit Risk

(A) Internal Rating System

The development of internal rating system and the estimation of parameters for credit risk measurement are based on the Bank and its subsidiaries' internal historical data and the experience of internal experts. The three major risk components include Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are used to measure the expected loss and unexpected loss, to assist the Bank and its subsidiaries in their stable growth of long-term operation.

(a) Probability of default

The Bank and its subsidiaries' institutional banking group has developed various scorecard models for Jumbo Enterprise, Middle Enterprise, Small Enterprise, Real Estate Developer and Personal, etc. based on obligor's characteristics, including exposure types, industrial characteristics, revenue scales, and the correspondent with the Bank and its subsidiaries. The Bank and its subsidiaries also develop a master scale to segment obligor's default risk; each segment of the master scale is associated with a predefined one-year forward-looking probability of default. As for retail banking group, we also developed the risk segmentation with predefined one-year forward-looking probability of default, which is developed according to obligor's risk characteristics, such as credit score, and delinquency status.

(b) Loss given default

CTBC institutional banking group calculates the parameters of LGD, such as Collateral Recovery Rate, based on the product characteristics, collateral types, and guarantee forms, etc. The

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

parameters are used to estimate the LGD for each facility. CTBC retail banking group established the LGD segmentation with long-run default-weighted average LGD, which is developed according to the product characteristics and obligor's payment behavior, such as Loan-to-value, exposure, collateral type, payment status, etc.

(c) Exposure at default

Exposure at default is calculated by current outstanding plus potential extra outstanding at default. The credit conversion factor (CCF) for potential extra outstanding at default is calculated by taking the facility commitment, usage ratio, loan outstanding and headroom into consideration. For off-balance-sheet exposure, CCF is used to estimate the portion of off-balance-sheet exposure converted into on-balance-sheet if default.

(B) Stress Testing

Depending on credit risk materiality and business scale, stress testing of credit risk portfolios was implemented. Stress testing helps the Bank and its subsidiaries aware of the possible change of risk component resulting from stress event, and assesses the amount of capital needed to absorb losses or plan remedial actions to mitigate the impact of exceptional loss when such incident occurs.

D. Mitigation of Credit Risk

a. Collateral Management

In assessing the credit extension, the business prospect, future cash flow, and repayment ability and willingness of an obligor are the main factors for determining the repayment capability. However, for the creditor's sake, the Bank, under government regulations, could ask the obligor or a third party to deliver pledge of real estate, chattel, or securities as collateral which could be disposed for recovering the creditor's right if the obligor defaults. In order to maintain the good standing value of collateral, the Bank and its subsidiaries have established guidelines regarding collateral management, which is as follows. By taking the volatility of market value and the characteristic of collateral into account, the Bank and its subsidiaries set the type of collateral that can be pledged and consider the historical recovery situation to draw up the highest loan to value. To verify the fairness of the value of the collateral, the value is identified not only through valuation reports issued by professional appraisers but also market price and the actual registered price. With the periodic revaluation, the adequacy of the guarantee capability of an object which is highly fluctuational can be timely monitored.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

b. Pre-settlement risk mitigation

For pre-settlement risk, the Bank and its subsidiaries might take mitigation actions such as calling for additional collateral (or margin), signing a netting agreement or signing an early determination agreement so as to reduce the credit loss.

c. Post-lending loan review mechanisms

Post-lending loan review mechanism refers that the Bank and its subsidiaries periodically monitor customer's usage of fund, performance and repayment capability so as to control the change of customer's risk. The review frequency and content depend on the risk grade of customers. The Bank and its subsidiaries stipulated Guideline for Loan Reviews based on the lending principle issued by The Bankers Association of The Republic of China and Credit Officer System established by the Bank and its subsidiaries. Loan review items cover change of borrower's business, inspection of credit standing, change of operation and financial condition, change of the collateral value, change of bank debt, the proceeds in accordance with funding purpose, and change of repayment sources and so on. If there is significant change of obligor's credit risk profile, the credit grade will be re-rated and unused facility might be adjusted depending on the situation.

d. Credit Risk Assurance Review

In order to ensure the adequacy of entire credit risk management and control mechanisms, credit risk portfolio and credit risk management process are assessed, reviewed, monitored and examined periodically by the Bank and its subsidiaries, to assist the Bank and its subsidiaries in their stable growth of long-term operation.

e. External guarantee

In order to enhance the credit for weak small and medium business borrowers and risk mitigation for the unsecured exposure of small and medium business borrower, external guarantee provided by R.O.C SMEG fund approved by government is one of the eligible guarantees.

f. Concentrations Risk Management

Besides periodic and intermittent monitoring of various risk components' credit risk exposure via different relevant credit risk management reports, the Bank and its subsidiaries have risk limit control mechanism, effective after approval by the board of directors, at the risk level of asset portfolio and singular conglomerate, considering that changes in external macro environment are likely to introduce concentration risk from clientele of the same characteristics.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Dimensions of limit ceiling monitoring include country risk, high risk grade obligors, product types, industry, pre-settlement limit, project limit, collateral, concentration in the same affiliate and trading counterparty, and so on.

E. Maximum exposure to credit risk

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance-sheet financial assets is equal to their carrying values.

Please refer to Note 6 (AN) (3)G. for off-balance sheet financial instruments' maximum exposure to credit risks maturity analysis.

F. Concentrations of credit risk

Significant concentrations of credit risk occur when there are exposures, significant enough to threaten a Bank's security or its ability to maintain core businesses, to an individual counterparty to a transaction or a number of related counterparties engage in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentrations of credit risk originate from assets, liabilities, and off-balance-sheet items by means of performing an obligation to deliver products or service, execution of a trade, or combination of cross-classification exposures. The Bank and its subsidiaries have proper internal policies, systems, and controls to recognize, measure, monitor, and control concentrations of credit risk. The following table illustrates the diversification of the loan portfolio among industry sectors and geographical regions of the Bank and its subsidiaries.

a. By Industry

| December 31, 2016 | | | | | | | | | |
|-------------------------------------|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|----------------------|
| | Individual | | | | | | Financial | | Total |
| | Clients | Service | Public Sector | High Tech | Real Estate | Manufacturing | Institution | Others | |
| Receivables—credit card | \$ 59,382,625 | - | - | - | - | - | - | - | 59,382,625 |
| Receivables—Factoring | - | 1,540,667 | 165,374 | 8,428,822 | - | 2,220,343 | 7,124,658 | - | 19,479,864 |
| Loans | | | | | | | | | |
| -Consumer loans | 621,693,973 | - | - | - | - | - | - | - | 621,693,973 |
| -Corporate loans | 59,195,316 | 71,864,044 | 123,385,948 | 71,408,740 | 56,008,139 | 76,711,799 | 13,239,543 | - | 471,813,529 |
| -Micro-business loans | 9,986,564 | 1,816,932 | - | 499,930 | 573,133 | 979,423 | 76,554 | 713,733 | 14,646,269 |
| -Foreign currency loans | 271,323,676 | 238,087,747 | 16,561,041 | 48,451,052 | 138,623,561 | 156,413,157 | 80,761,007 | 8,995,380 | 959,216,621 |
| -Non-accrual loans | 4,148,409 | 4,748,742 | - | 208,116 | 252,660 | 2,941,561 | - | 116,800 | 12,416,288 |
| -Adjustment of discount and premium | (234,269) | (455,769) | (720) | (86,638) | (282,046) | (103,601) | (60,206) | (315,291) | (1,538,540) |
| Other financial assets | 94,658 | - | - | - | - | 4,136 | - | - | 98,794 |
| Total | <u>\$ 1,025,590,952</u> | <u>317,602,363</u> | <u>140,111,643</u> | <u>128,910,022</u> | <u>195,175,447</u> | <u>239,166,818</u> | <u>101,141,556</u> | <u>9,510,622</u> | <u>2,157,209,423</u> |

| December 31, 2016 | | | | | |
|--|-----------------------|-------------------|-----------------------|--------------------|--------------------|
| | Public Sector | Corporate | Financial Institution | Individual Clients | Total |
| Available-for-sale financial assets—debt securities | \$ 502,015,402 | 15,896,428 | 59,872,585 | 9,541,355 | 587,325,770 |
| Derivative financial assets—hedging | - | - | 416,342 | - | 416,342 |
| Held-to-maturity financial assets | 83,037,872 | 6,600,178 | 36,419,427 | - | 126,057,477 |
| Other financial assets—debt investment without active market | - | 14,210,976 | - | - | 14,210,976 |
| Total | <u>\$ 585,053,274</u> | <u>36,707,582</u> | <u>96,708,354</u> | <u>9,541,355</u> | <u>728,010,565</u> |

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| December 31, 2015 | | | | | | | | | |
|-------------------------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------------|-------------------|----------------------|
| | Individual Clients | Service | Public Sector | High Tech | Real Estate | Manufacturing | Financial Institution | Others | Total |
| Receivables—credit card | \$ 57,504,276 | - | - | - | - | - | - | - | 57,504,276 |
| Receivables—Factoring | - | 2,272,680 | 179,499 | 9,395,433 | - | 1,899,983 | 30,655,083 | 991,771 | 45,394,449 |
| Loans | | | | | | | | | |
| -Consumer loans | 555,866,062 | - | - | - | - | - | - | - | 555,866,062 |
| -Corporate loans | 54,262,033 | 66,688,639 | 188,421,778 | 69,931,331 | 51,964,391 | 82,113,408 | 12,825,784 | 882,804 | 527,090,168 |
| -Micro-business loans | 18,042,433 | 1,477,856 | 4,300 | 346,999 | 462,367 | 880,070 | 73,078 | 1,204,332 | 22,491,435 |
| -Foreign currency loans | 265,326,177 | 219,856,130 | 2,649,462 | 51,528,645 | 133,193,246 | 156,937,813 | 81,912,165 | 8,192,888 | 919,596,526 |
| -Non-accrual loans | 4,314,028 | 7,658,494 | - | 1,428,426 | 554,291 | 940,292 | 15,784 | - | 14,911,315 |
| -Adjustment of discount and premium | (214,344) | (619,874) | (1,235) | (79,861) | (217,534) | (72,346) | (76,940) | (285,478) | (1,567,612) |
| Other financial assets | 90,050 | - | - | - | - | 4,345 | - | - | 94,395 |
| Total | <u>\$ 955,190,715</u> | <u>297,333,925</u> | <u>191,253,804</u> | <u>132,550,973</u> | <u>185,956,761</u> | <u>242,703,565</u> | <u>125,404,954</u> | <u>10,986,317</u> | <u>2,141,381,014</u> |

| December 31, 2015 | | | | | |
|---|-----------------------|-------------------|--------------------------|-----------------------|--------------------|
| | Public Sector | Corporate | Financial Institution | Individual Clients | Total |
| Available-for-sale financial assets— debt securities | \$ 356,836,059 | 12,125,093 | 66,172,130 | 8,956,985 | 444,090,267 |
| Derivative financial assets—hedging | - | - | 107,526 | - | 107,526 |
| Held-to-maturity financial assets | 122,820,173 | 5,077,236 | 19,770,169 | - | 147,667,578 |
| Other financial assets—debt investment without active market | - | 14,226,134 | - | - | 14,226,134 |
| Total | <u>\$ 479,656,232</u> | <u>31,428,463</u> | <u>86,049,825</u> | <u>8,956,985</u> | <u>606,091,505</u> |

b. By Area

| December 31, 2016 | | | | | |
|--|-------------------------|--------------------|----------------------------|-------------------|----------------------|
| | Taiwan | North America | Asia (excluding Taiwan) | Others | Total |
| Available-for-sale financial assets—debt securities | \$ 433,978,395 | 48,782,230 | 86,837,845 | 17,727,300 | 587,325,770 |
| Derivative financial assets—hedging | 436,122 | - | (19,780) | - | 416,342 |
| Receivables—credit card | 59,382,625 | - | - | - | 59,382,625 |
| Receivables—factoring | 4,662,925 | 1,091,966 | 11,204,596 | 2,520,377 | 19,479,864 |
| Loans | | | | | |
| Consumer finance | | | | | |
| —Mortgage loans | 513,927,854 | - | - | - | 513,927,854 |
| —Automobile loans | 653 | - | - | - | 653 |
| —Consumer loans | 107,765,466 | - | - | - | 107,765,466 |
| Corporate finance | | | | | |
| —Corporate loans | 466,351,525 | 3,800,000 | 1,558,405 | 103,599 | 471,813,529 |
| —Micro-business loans | 14,646,269 | - | - | - | 14,646,269 |
| Foreign currency loans | 62,192,983 | 113,129,269 | 761,274,768 | 22,619,601 | 959,216,621 |
| Non-accrual loans | 1,534,461 | 120,781 | 10,760,902 | 144 | 12,416,288 |
| Adjustment of discount and premium | (381,328) | (39,613) | (779,182) | (338,417) | (1,538,540) |
| Held-to-maturity financial assets | 48,762,073 | 29,140,643 | 38,355,141 | 9,799,620 | 126,057,477 |
| Other financial assets | 94,658 | - | 14,215,112 | - | 14,309,770 |
| Total | <u>\$ 1,713,354,681</u> | <u>196,025,276</u> | <u>923,407,807</u> | <u>52,432,224</u> | <u>2,885,219,988</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | December 31, 2015 | | | | |
|---|--------------------------|----------------------|------------------------------------|-------------------|----------------------|
| | Taiwan | North America | Asia (excluding Taiwan) | Others | Total |
| Available-for-sale financial assets — debt securities | \$ 275,359,480 | 54,497,871 | 93,459,510 | 20,773,406 | 444,090,267 |
| Derivative financial assets — hedging | 99,349 | - | - | 8,177 | 107,526 |
| Receivables — credit card | 57,504,276 | - | - | - | 57,504,276 |
| Receivables — factoring | 5,477,596 | 1,716,481 | 35,448,327 | 2,752,045 | 45,394,449 |
| Loans | | | | | |
| Consumer finance | | | | | |
| — Mortgage loans | 449,872,194 | - | - | - | 449,872,194 |
| — Automobile loans | 923 | - | - | - | 923 |
| — Consumer loans | 105,992,945 | - | - | - | 105,992,945 |
| Corporate finance | | | | | |
| — Corporate loans | 524,127,050 | - | 2,963,118 | - | 527,090,168 |
| — Micro-business loans | 22,491,435 | - | - | - | 22,491,435 |
| Foreign currency loans | 58,332,585 | 90,631,662 | 751,308,574 | 19,323,705 | 919,596,526 |
| Non-accrual loans | 2,048,803 | 256,739 | 12,605,773 | - | 14,911,315 |
| Adjustment of discount and premium | (408,929) | (32,920) | (826,821) | (298,942) | (1,567,612) |
| Held-to-maturity financial assets | 87,138,803 | 32,650,152 | 23,722,729 | 4,155,894 | 147,667,578 |
| Other financial assets | 90,050 | - | 14,230,479 | - | 14,320,529 |
| Total | \$ 1,588,126,560 | 179,719,985 | 932,911,689 | 46,714,285 | 2,747,472,519 |

CTBC BANK CO., LTD. AND SUBSIDIARIES

G. Credit quality and impairment analysis of financial assets

Some financial assets held by the Bank and its subsidiaries, such as cash and equivalent cash, due from central bank, call loans to banks, financial assets measured at fair value through profit or loss, securities purchased under resell agreements, refundable deposits, operational guarantee deposits, and settlement fund, are excluded from this analysis since most of counterparties are normally with good credit quality and can be considered as low credit risk. Below tables provide the credit quality analysis for the rest of financial assets:

| | Neither past due nor impaired | | | | | | Past due not impaired | | | | | |
|--|-------------------------------|----------------------|-----------------|---------------|------------------|----------------------|-----------------------|-------------|-----------------------------------|-----------------------------------|--------------------------|--------------------------|
| | Investment grade | Sub-investment grade | High Risk grade | Subtotal(A) | Investment grade | Sub-investment grade | High Risk grade | Subtotal(B) | Individually assessed impaired(C) | Collectively assessed impaired(D) | Impairment allowances(E) | Total(A)+(B)-(C)+(D)-(E) |
| \$ Available-for-sale financial assets— debt securities | 527,863,910 | 58,973,555 | - | 586,837,465 | - | - | - | - | 488,305 | - | 119,544 | 587,206,226 |
| Derivative financial assets—hedging | 436,322 | (19,780) | (200) | 416,342 | - | - | - | - | - | - | - | 416,342 |
| Receivables — credit card | 45,377,382 | 8,123,920 | 1,916,365 | 55,417,667 | 40,096 | 102,462 | 487,011 | 629,569 | - | 3,335,389 | 1,063,698 | 58,318,927 |
| Receivables — factoring | 5,893,243 | 10,422,185 | 2,376,003 | 18,691,431 | 115,208 | 534,348 | 138,877 | 788,433 | - | - | 19,022 | 19,460,842 |
| Loans | | | | | | | | | | | | |
| Consumer finance | | | | | | | | | | | | |
| — Mortgage loans | 499,316,952 | 4,144,337 | 434,792 | 503,896,081 | 3,132,731 | 1,209,099 | 713,711 | 5,055,541 | - | 4,976,232 | 391,729 | 513,536,125 |
| — Automobile loans | - | - | - | - | - | - | - | - | - | 653 | 34 | 619 |
| — Consumer loans | 75,765,879 | 17,053,358 | 3,505,932 | 96,325,169 | 546,736 | 784,140 | 1,808,260 | 3,139,136 | - | 8,301,161 | 2,675,277 | 105,090,189 |
| Corporate finance | | | | | | | | | | | | |
| — Corporate loans | 217,227,127 | 198,096,672 | 53,427,335 | 468,751,134 | - | 118,489 | 154,546 | 273,035 | 2,789,360 | - | 871,706 | 470,941,823 |
| — Micro-business loans | 7,772,371 | 4,469,970 | 1,939,367 | 14,181,708 | 2,135 | 20,722 | 75,528 | 98,385 | 39,241 | 326,935 | 26,594 | 14,619,675 |
| Foreign currency loans | 397,447,981 | 397,112,915 | 156,238,536 | 950,799,432 | 408,055 | 695,718 | 2,476,350 | 3,580,123 | 3,805,449 | 1,031,617 | 4,947,921 | 954,268,700 |
| Non-accrual loans | - | - | - | - | - | - | 530 | 530 | 8,023,405 | 4,392,353 | 5,862,715 | 6,553,573 |
| Adjustment of discount and premium | (569,427) | (646,497) | (364,577) | (1,580,501) | 323 | 175 | (756) | (258) | 39,127 | 3,092 | (913) | (1,537,627) |
| Held-to-maturity financial assets — net | 57,007,087 | 69,050,390 | - | 126,057,477 | - | - | - | - | - | - | 3,440 | 126,054,037 |
| Other financial assets | 7,238,492 | 4,179,078 | 2,793,406 | 14,210,976 | - | - | - | - | 4,136 | 94,658 | 127,326 | 14,182,444 |
| Total | \$ 1,840,777,319 | 770,960,103 | 222,266,959 | 2,834,004,381 | 4,245,284 | 3,465,153 | 5,854,057 | 13,564,494 | 15,189,023 | 22,462,090 | 16,108,093 | 2,869,111,895 |

Note: The balances of impairment allowance, as shown above, are in compliance with the IFRSs accepted by FSC.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Item | December 31, 2015 | | | | | | | | | | Total(A)+(B) +(C)+(D)-(E) | |
|--|-------------------------------|-------------------------|--------------------|---------------|---------------------|-------------------------|--------------------|-------------|---|---|------------------------------|-----------------------------|
| | Neither past due nor impaired | | | | | Past due not impaired | | | | | | |
| | Investment grade | Sub-investment grade | High Risk grade | Subtotal(A) | Investment grade | Sub-investment grade | High Risk grade | Subtotal(B) | Individually assessed impaired(C) | Collectively assessed impaired(D) | | Impairment allowances(E) |
| Available-for-sale financial assets — debt securities | \$ 364,900,258 | 78,678,008 | - | 443,578,266 | - | - | - | - | 512,001 | - | 75,297 | 444,014,970 |
| Derivative financial assets—hedging | 105,449 | 2,466 | (389) | 107,526 | - | - | - | - | - | - | - | 107,526 |
| Receivables—credit card | 43,763,236 | 7,719,418 | 1,907,562 | 53,390,216 | 45,949 | 105,700 | 492,951 | 644,600 | - | 3,469,460 | 1,078,439 | 56,425,837 |
| Receivables—factoring | 29,384,286 | 13,606,184 | 1,854,344 | 44,844,814 | 170,697 | 200,029 | 117,100 | 487,826 | 61,809 | - | 82,271 | 45,312,178 |
| Loans | | | | | | | | | | | | |
| Consumer finance | | | | | | | | | | | | |
| —Mortgage loans | 434,994,722 | 4,192,306 | 400,377 | 439,587,405 | 2,470,486 | 1,515,303 | 861,967 | 4,847,756 | - | 5,437,033 | 443,271 | 449,428,923 |
| —Automobile loans | - | - | - | - | - | - | - | - | - | 923 | 66 | 857 |
| —Consumer loans | 75,391,475 | 16,463,925 | 3,174,884 | 95,030,284 | 553,020 | 753,598 | 1,678,491 | 2,985,109 | - | 7,977,552 | 2,573,776 | 103,419,169 |
| Corporate finance | | | | | | | | | | | | |
| —Corporate loans | 288,789,186 | 187,020,650 | 49,196,848 | 525,006,684 | - | 125,762 | 209,598 | 335,360 | 1,748,124 | - | 682,601 | 526,407,567 |
| —Micro-business loans | 15,690,834 | 4,326,090 | 1,963,011 | 21,979,935 | 13,929 | 4,194 | 33,909 | 52,032 | 22,904 | 436,564 | 13,988 | 22,477,447 |
| Foreign currency loans | 380,793,792 | 387,546,005 | 144,444,420 | 912,784,217 | 381,402 | 498,833 | 1,618,674 | 2,498,909 | 2,044,826 | 2,268,574 | 4,095,209 | 915,501,317 |
| Non-accrual loans | - | - | - | - | - | - | 7,511 | 7,511 | 10,176,229 | 4,727,575 | 6,028,828 | 8,882,487 |
| Adjustment of discount and premium | (575,011) | (698,899) | (326,862) | (1,600,772) | 621 | 166 | (443) | 344 | 31,645 | 1,171 | (630) | (1,566,982) |
| Held-to-maturity financial assets—net | 68,939,311 | 78,727,795 | - | 147,667,106 | - | - | - | - | 472 | - | 472 | 147,667,106 |
| Other financial assets | 9,931,183 | 1,128,863 | 3,166,088 | 14,226,134 | - | - | - | - | 4,345 | 90,050 | 106,723 | 14,213,806 |
| Total | \$ 1,712,108,721 | 778,712,811 | 205,780,283 | 2,696,601,815 | 3,636,104 | 3,203,585 | 5,019,758 | 11,859,447 | 14,602,355 | 24,408,902 | 15,180,311 | 2,732,292,208 |

Note: The balances of impairment allowance, as shown above, are in compliance with the IFRSs accepted by FSC.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

H. Aging analysis on past due but not impaired financial assets

Past due but not impaired loans might result from some temporary administration reasons so the customer is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown the potential loss, according to internal credit risk assets impairment evaluation guideline, a less than 90-day past due loan is typically not to be treated as impairment.

| December 31, 2016 | | | | | |
|------------------------------------|----------------------|-------------------|-------------------|----------------------|-------------------|
| | Up to 1 month | 1-2 months | 2-3 months | Over 3 months | Total |
| Receivables | | | | | |
| -Credit cards | \$ 453,774 | 113,880 | 61,915 | - | 629,569 |
| -Factoring | 318,023 | 373,332 | 9 | 97,069 | 788,433 |
| Loans | | | | | |
| Consumer finance | | | | | |
| -Mortgage loans | 4,936,620 | 108,171 | 10,750 | - | 5,055,541 |
| -Consumer loans | 2,710,028 | 299,819 | 129,289 | - | 3,139,136 |
| Corporate finance | | | | | |
| -Corporate loans | 270,444 | 2,591 | - | - | 273,035 |
| -Micro-business loans | 95,368 | 3,017 | - | - | 98,385 |
| Foreign currency loans | 1,773,741 | 1,329,714 | 474,471 | 2,197 | 3,580,123 |
| Non-accrual loans | - | - | 530 | - | 530 |
| Adjustment of discount and premium | 516 | (837) | 63 | - | (258) |
| Total | \$ 10,558,514 | 2,229,687 | 677,027 | 99,266 | 13,564,494 |

| December 31, 2015 | | | | | |
|------------------------------------|----------------------|-------------------|-------------------|----------------------|-------------------|
| | Up to 1 month | 1-2 months | 2-3 months | Over 3 months | Total |
| Receivables | | | | | |
| -Credit cards | \$ 456,665 | 126,692 | 61,243 | - | 644,600 |
| -Factoring | 212,373 | 172,647 | 947 | 101,859 | 487,826 |
| Loans | | | | | |
| Consumer finance | | | | | |
| -Mortgage loans | 4,701,585 | 132,346 | 13,825 | - | 4,847,756 |
| -Consumer loans | 2,542,521 | 301,138 | 141,450 | - | 2,985,109 |
| Corporate finance | | | | | |
| -Corporate loans | 316,247 | 18,928 | 185 | - | 335,360 |
| -Micro-business loans | 39,614 | 12,409 | 9 | - | 52,032 |
| Foreign currency loans | 1,519,197 | 782,236 | 197,476 | - | 2,498,909 |
| Non-accrual loans | 7,511 | - | - | - | 7,511 |
| Adjustment of discount and premium | 594 | (367) | 117 | - | 344 |
| Total | \$ 9,796,307 | 1,546,029 | 415,252 | 101,859 | 11,859,447 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

I. Impairment analysis on impaired financial assets

| | December 31, 2016 | | | | |
|---|--|--|--|--|----------------------------------|
| | Individually assessed impaired exposure | Collectively assessed impaired exposure | Individually assessed impairment allowances | Collectively assessed impairment allowances | Net impaired Exposure |
| Available-for-sale financial assets- debt investment | \$ 488,305 | - | 119,544 | - | 368,761 |
| Receivables | | | | | |
| -Credit cards | - | 3,335,389 | - | 424,301 | 2,911,088 |
| Loans | | | | | |
| Consumer finance | | | | | |
| -Mortgage loans | - | 4,976,232 | - | 278,923 | 4,697,309 |
| -Automobile loans | - | 653 | - | 34 | 619 |
| -Consumer loans | - | 8,301,161 | - | 1,108,402 | 7,192,759 |
| Corporate finance | | | | | |
| -Corporate loans | 2,789,360 | - | 634,255 | - | 2,155,105 |
| -Micro-business loans | 39,241 | 326,935 | 15,751 | 184 | 350,241 |
| Foreign currency loans | 3,805,449 | 1,031,617 | 1,098,296 | 177,498 | 3,561,272 |
| Non-accrual loans | 8,023,405 | 4,392,353 | 3,575,074 | 2,287,641 | 6,553,043 |
| Adjustment of discount and premium | 39,127 | 3,092 | - | - | 42,219 |
| Other financial assets | 4,136 | 94,658 | 1,654 | 81,818 | 15,322 |
| Total | \$ 15,189,023 | 22,462,090 | 5,444,574 | 4,358,801 | 27,847,738 |

| | December 31, 2015 | | | | |
|---|--|--|--|--|----------------------------------|
| | Individually assessed impaired exposure | Collectively assessed impaired exposure | Individually assessed impairment allowances | Collectively assessed impairment allowances | Net impaired Exposure |
| Available-for-sale financial assets- debt investment | \$ 512,001 | - | 75,297 | - | 436,704 |
| Receivables | | | | | |
| -Credit cards | - | 3,469,460 | - | 432,212 | 3,037,248 |
| -Factoring | 61,809 | - | 61,809 | - | - |
| Loans | | | | | |
| Consumer finance | | | | | |
| -Mortgage loans | - | 5,437,033 | - | 326,389 | 5,110,644 |
| -Automobile loans | - | 923 | - | 66 | 857 |
| -Consumer loans | - | 7,977,552 | - | 1,020,047 | 6,957,505 |
| Corporate finance | | | | | |
| -Corporate loans | 1,748,124 | - | 345,530 | - | 1,402,594 |
| -Micro-business loans | 22,904 | 436,564 | 2,750 | 523 | 456,195 |
| Foreign currency loans | 2,044,826 | 2,268,574 | 698,431 | 80,137 | 3,534,832 |
| Non-accrual loans | 10,176,229 | 4,727,575 | 3,663,644 | 2,365,184 | 8,874,976 |
| Adjustment of discount and premium | 31,645 | 1,171 | - | - | 32,816 |
| Held-to-maturity financial assets — net | 472 | - | 472 | - | - |
| Other financial assets | 4,345 | 90,050 | 1,738 | 77,603 | 15,054 |
| Total | \$ 14,602,355 | 24,408,902 | 4,849,671 | 4,302,161 | 29,859,425 |

J. Foreclosed properties

Foreclosed properties of the Bank and its subsidiaries are classified under other assets. Please refer to Note 6(O).

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

K. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a. Asset quality of the Bank and its subsidiaries' non-performing loans and overdue receivables

(A) Asset quality of the Bank and its subsidiaries

Unit : In Thousands of New Taiwan Dollars , %

Unit: In Thousands of New Taiwan Dollars %

| Month/ Year | | | December 31, 2016 | | | | |
|----------------------------|-----------------------|-----------|----------------------|------------------------|----------------------------|-----------------------------|----------------|
| | | | Non-performing loans | Total loans | Non-performing loans ratio | Allowance for credit losses | Coverage ratio |
| Categories/ Items | | | | | | | |
| Corporate finance | Secured | | 5,252,609 | 450,282,680 | 1.17% | 15,787,522 | 181.19% |
| | Unsecured (Note 10) | | 3,460,675 | 731,645,311 | 0.47% | | |
| Consumer finance | Residential mortgages | | 1,818,676 | 718,710,304 | 0.25% | 6,932,786 | 381.20% |
| | Cash cards | | 57,978 | 2,889,797 | 2.01% | 129,251 | 222.93% |
| | Micro-credit loans | Original | 1,960,373 | 107,988,468 | 1.82% | 5,053,438 | 257.78% |
| | | Purchase | - | 60,891 | - % | 2 | - % |
| | Others | Secured | 342,749 | 63,143,943 | 0.54% | 845,638 | 149.92% |
| | | Unsecured | 221,326 | 5,065,286 | 4.37% | | |
| Total loan business | | | 13,114,386 | 2,079,786,680 | 0.63% | 28,748,637 | 219.21% |
| | | | Overdue receivables | Balance of receivables | Delinquency ratio | Allowance for credit losses | Coverage ratio |
| Credit cards business | | | 91,944 | 59,477,283 | 0.15% | 1,146,037 | 1,246.45% |
| Without-recourse factoring | | | - | 19,479,864 | - % | 599,831 | - % |

| Month/Year | | | December 31, 2015 | | | | |
|----------------------------|-----------------------|-----------|----------------------|------------------------|----------------------------|-----------------------------|----------------|
| | | | Non-performing loans | Total loans | Non-performing loans ratio | Allowance for credit losses | Coverage ratio |
| Categories/Items | | | | | | | |
| Corporate finance | Secured | | 8,992,444 | 454,808,547 | 1.98% | 14,931,581 | 129.70% |
| | Unsecured (Note 10) | | 2,520,095 | 762,373,947 | 0.33% | | |
| Consumer finance | Residential mortgages | | 1,819,969 | 649,231,342 | 0.28% | 6,169,554 | 338.99% |
| | Cash cards | | 76,980 | 3,117,459 | 2.47% | 167,343 | 217.39% |
| | Micro-credit loans | Original | 1,980,235 | 106,701,083 | 1.86% | 4,979,904 | 251.48% |
| | | Purchase | - | 87,720 | - % | 3 | - % |
| | Others | Secured | 287,563 | 58,248,074 | 0.49% | 778,341 | 125.24% |
| | | Unsecured | 333,940 | 5,387,334 | 6.20% | | |
| Total loan business | | | 16,011,226 | 2,039,955,506 | 0.78% | 27,026,726 | 168.80% |
| | | | Overdue receivables | Balance of receivables | Delinquency ratio | Allowance for credit losses | Coverage ratio |
| Credit cards business | | | 86,512 | 57,594,326 | 0.15% | 1,156,759 | 1,337.11% |
| Without-recourse factoring | | | - | 45,394,449 | - % | 782,188 | - % |

Note 1: Non-performing loans represent the amount of overdue loans as reported in accordance with the “Regulations on the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans.” The credit card overdue loans represent the amount of overdue loans as reported in accordance with Jin Kuan Yin (4) Zi No. 0944000378, dated July 6, 2005.

Note 2: Non-performing loans ratio = Non-performing loans ÷ total loans;
Credit card delinquency ratio = Overdue receivables ÷ balance of receivables.

Note 3: Coverage ratio for loans = allowance for credit losses ÷ non-performing loans;
Coverage ratio for credit card = allowance for credit losses ÷ overdue receivables.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- Note 4: For residential mortgage loans, a borrower provides his/her (or spouse's or minor child's) house as collateral in full and pledges it to the financial institution for the purpose of obtaining funds to purchase property and to construct or repair a house.
- Note 5: Microcredit loans are defined by Jin Kuan Yin (4) Zi No. 09440010950, dated December 19, 2005, and do not include credit cards or cash cards.
- Note 6: Others in consumer finance are secured and unsecured consumer loans other than residential mortgage loans, cash cards, and microcredit loans, and do not include credit cards.
- Note 7: In accordance with Jin Kuan Yin (5) Zi No. 094000494, dated July 19, 2005, the amounts of without recourse factoring will be classified as overdue receivables within 3 months after the date that suppliers or insurance companies resolve not to compensate the loss.
- Note 8: The balances of impairment allowance, as shown above, are calculated in accordance with the IFRSs accepted by FSC and "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans," and other related regulations. Additionally, the amounts exclude non accrual loans arising from guarantees. Related allowance for credit losses is recognized under provisions.
- Note 9: Supplemental disclosures:

The information below shows supplemental disclosures of the Bank's loans and receivables that may be exempted from reporting as non performing loans and overdue receivables, respectively.

Unit : In Thousands of New Taiwan Dollars

| | December 31, 2016 | | December 31, 2015 | |
|--|--|--|--|--|
| | Loans that may be exempted from reporting as a non-performing loan | Receivables that may be exempted from reporting as overdue receivables | Loans that may be exempted from reporting as a non-performing loan | Receivables that may be exempted from reporting as overdue receivables |
| Pursuant to a contract under a debt negotiation plan (Note 1) | 83,339 | 103,480 | 111,506 | 92,655 |
| Pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2) | 707,640 | 71,413 | 619,712 | 71,018 |
| Total | 790,979 | 174,893 | 731,218 | 163,673 |

Note 1: In accordance with Jin Kuan Yin (1) Zi No. 09510001270, dated April 25, 2006, a bank is required to make supplemental disclosure of credit information which was approved under the "debt coordination mechanism of unsecured consumer debts by the Bankers Association of the R.O.C".

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Note 2: In accordance with Jin Kuan Yin (1) Zi No. 09700318940, dated September 15, 2008, a bank is required to make supplemental disclosure of credit information once debtors apply for pre negotiation, relief and liquidation under the “Consumer Debt Clearance Act.”

Note 10: Those loans that are not 100% backed by collateral are classified as unsecured.

b. Concentration of the Bank’s credit extensions

Unit : In Thousands of New Taiwan Dollars , %

| December 31, 2016 | | | |
|--------------------------|--|----------------------|--|
| Ranking | Enterprise group by industry sector | Credit amount | Credit amount/ stockholders’ equity (%) |
| 1 | A group. Liquid crystal panel and components manufacturing | 12,825,495 | 5.07% |
| 2 | B group. Cement products manufacturing | 10,173,219 | 4.02% |
| 3 | C group. Liquid crystal panel and components manufacturing | 9,757,731 | 3.86% |
| 4 | D group. Iron and steel smelting | 9,590,656 | 3.79% |
| 5 | E group. Marine shipping | 9,111,800 | 3.60% |
| 6 | F group. Other unclassified financial intermediaries | 7,867,176 | 3.11% |
| 7 | G group. Print circuits manufacturing | 6,889,941 | 2.72% |
| 8 | H group. Cable and other pay program broadcast industry | 6,840,293 | 2.70% |
| 9 | I group. Consulting group | 6,139,942 | 2.43% |
| 10 | J group. Other unclassified financial intermediaries | 6,133,010 | 2.42% |

| December 31, 2015 | | | |
|--------------------------|--|----------------------|--|
| Ranking | Enterprise group by industry sector | Credit amount | Credit amount/ stockholders’ equity (%) |
| 1 | A group. Liquid crystal panel and components manufacturing | 12,788,820 | 5.48% |
| 2 | C group. Liquid crystal panel and components manufacturing | 10,974,168 | 4.70% |
| 3 | E group. Marine shipping | 10,874,555 | 4.66% |
| 4 | H group. Cable and other pay program broadcast industry | 10,205,453 | 4.37% |
| 5 | G group. Print circuits manufacturing | 7,397,869 | 3.17% |
| 6 | K group. Cement products manufacturing | 6,598,351 | 2.83% |
| 7 | L group. Wires and cable manufacturing | 6,406,017 | 2.74% |
| 8 | I group. Consulting group | 6,207,253 | 2.66% |
| 9 | M group. Marine freight forwarder | 5,742,185 | 2.46% |
| 10 | N group. Other unclassified financial intermediaries | 5,621,409 | 2.41% |

Note 1: The top ten enterprise groups other than government or state owned enterprises are ranked according to their total outstanding credit amount. If the borrowers belong to an enterprise group, the aggregate credit balance of the enterprise should be calculated and disclosed as a code number for each such borrower together with an indication of the borrowers’ line of business. In addition, if the borrowers are enterprise groups, the enterprise group’s industry sector with the maximum exposure to credit risk in its main industry sector should be disclosed, along with the “class” of the industry, in compliance with the Standard Industrial Classification

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

System of the R.O.C. posted by the Directorate General of Budget,
Accounting and Statistics, Executive Yuan, R.O.C.

Note 2: Enterprise group is as defined in Article 6 of the “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.”

Note 3: The total outstanding credit amount is the sum of the balances of all loan types (including import and export bill negotiations, loans, overdrafts, short/medium/long term secured and unsecured loans, margin loans receivable, and non accrual loans), bills purchased, without recourse factoring, acceptances receivable, and guarantees receivable.

3. Liquidity Risk Management Mechanism

A. Definition and sources of liquidity risk

Liquidity risk of the Bank and its subsidiaries refer to the risk of inability to obtain funds at a reasonable cost within a reasonable timeframe to meet financial obligations, and thus impact the Bank and its subsidiaries' profits or economic value.

Liquidity risk may stem from external and internal factors, such as undermined payment capability caused by financial market volatility, early withdraws and concerns of creditors or depositors over the Bank's ability to meet payment obligations due to credit, market or operational risk.

B. Objectives of liquidity risk management

There is cost associated with the level of liquidity. Liquidity risk management for the Bank and its subsidiaries aim to satisfy funding needs and maximize profits by allocating assets and liabilities in the most cost effective way within the approved risk tolerance.

C. Management procedures and risk measurement of liquidity risk

Based on the “Asset and Liability Management Policy”, the Bank and its subsidiaries set robust management procedures and risk measurement to identify, measure, monitor, and report the liquidity risk. By periodically monitoring the liquidity limit approved by the Board, continuously conducting the development and application of quantitative risk assessment tools, and studying liquidity related issues, the liquidity risk is properly managed. The Bank and its subsidiaries set various limits for managing liquidity risk, including the mismatch of cash inflow and outflow and funding concentration to assure the Bank and its subsidiaries maintain adequate liquidity.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Funding Management Unit is entrusted the responsibility to centrally manage the liquidity risk of the Bank and its subsidiaries, and to act as sole window to engage in funding activities. The risk management unit will monitor the liquidity risk independently. The main responsibilities of funding management unit are as follows:

- a. Keep abreast of market condition/ trend, and adjust liquidity gap to conform to approved risk limits using financial instruments with appropriate allocations in amount and maturity.
- b. Maintain adequate stock of liquid assets to meet regulatory requirements and to fulfill the obligations.
- c. Diversify funding instruments and counterparties in order to prevent overdependence on specific funding sources.
- d. Activate Contingency Funding Plan (CFP) and adjust positions when a liquidity crisis is detected.

The liquidity risk monitoring unit is responsible to identify the cause of liquidity risk, develop and enhance the measurement of risk, periodically conducts the risk reports, activate the Contingency Funding Plan when liquidity crisis is detected, and monitor the effectiveness of action plan. Tools and characteristics of risk measurements and reporting are as follow:

- (a) Thorough liquidity risk measurement
 - (A) Maximum Cumulative Outflow (MCO): Analyzing maturity mismatch to capture each time bucket cash flow changes, which serve as an early warning of liquidity risk.
 - (B) Liquidity risk heat map: Liquidity risk indicators can be further developed into an easily understandable map to facilitate systematic monitoring and to effectively highlight changes, causes and impact.
- (b) The liquidity risk monitoring unit periodically conducts the risk reports, which contain the analysis of limit usage and liquidity risk indicators. The risk report with supporting stress test result will periodically be submitted to related risk management meetings. For important liquidity risk issues, depend on the impact, report to the Bank or the Holding Company's management level to discuss the action plan.

D. Risk mitigation and hedge of liquidity risk

Through liquidity risk management framework, the Bank and its subsidiaries maintain sufficient liquidity status and robust funding structure. By using rigorous liquidity risk measurement and monitoring, the Bank and its subsidiaries can observe potential issues on liquidity risk and report them to risk meeting. Therefore, the responsible units can adjust their strategies based on the decision to avoid liquidity risk. Once the risk limit is exceeded, risk management unit will analyze the cause, then report reaction plans and follow-ups to corresponding authority for approval.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

In addition, the Bank and its subsidiaries have a Liquidity Contingency Plan as guidance to all units when a liquidity crisis emerges. It aims to resolve the crisis in an effective manner by pulling together all resources available to the Bank and its subsidiaries.

E. Maturity analysis of non-derivatives liabilities

Table below shows the analysis of cash outflows of non-derivatives liabilities based on time remaining until the contractual maturity date. The amount disclosed is based on contractual cash flows and may be different from that included in the consolidated balance sheets.

| | December 31, 2016 | | | | | |
|--|--------------------------|-------------------|--------------------|----------------------|--------------------|---------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | Total |
| Deposits from Central Bank and other banks | \$ 38,430,108 | 13,232,674 | 6,201,690 | 5,634,211 | - | 63,498,683 |
| Due to Central Bank and other banks | 624,763 | 39,966 | 1,200,632 | 1,237,600 | 2,937,344 | 6,040,305 |
| Non-derivative financial liabilities measured at fair value through profit or loss | - | - | - | - | 28,178,587 | 28,178,587 |
| Securities sold under repurchase agreements | 34,294,831 | 5,627,984 | 10,644 | - | - | 39,933,459 |
| Payables | 40,297,737 | 7,376,599 | 8,310,251 | 15,114,001 | 56,230,692 | 127,329,280 |
| Current income tax liabilities | - | - | 2,354,101 | - | - | 2,354,101 |
| Deposits and remittances | 1,769,167,790 | 312,772,525 | 216,188,999 | 409,572,383 | 54,976,055 | 2,762,677,752 |
| Financial debentures | - | - | 578,970 | 2,481,300 | 68,333,640 | 71,393,910 |
| Other financial liabilities | 29,960,050 | 8,574,182 | 11,159,623 | 21,569,567 | 81,703,159 | 152,966,581 |

| | December 31, 2015 | | | | | |
|--|--------------------------|-------------------|--------------------|----------------------|--------------------|---------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | Total |
| Deposits from Central Bank and other banks | \$ 31,215,198 | 8,094,550 | 2,809,693 | 2,828,083 | 686,750 | 45,634,274 |
| Due to Central Bank and other banks | 832,730 | 176,789 | 3,912,068 | 11,045,584 | 3,767,858 | 19,735,029 |
| Non-derivative financial liabilities measured at fair value through profit or loss | - | - | - | - | 38,683,355 | 38,683,355 |
| Securities sold under repurchase agreements | 45,253,236 | 4,877,945 | 516,902 | - | - | 50,648,083 |
| Payables | 37,446,894 | 7,428,582 | 7,910,981 | 14,048,208 | 109,303,122 | 176,137,787 |
| Current income tax liabilities | - | - | 2,981,280 | - | - | 2,981,280 |
| Deposits and remittances | 1,728,588,625 | 326,839,576 | 208,707,403 | 367,827,305 | 102,420,702 | 2,734,383,611 |
| Financial debentures | - | 5,031,000 | 3,100,000 | 1,703,140 | 71,377,610 | 81,211,750 |
| Other financial liabilities | 16,884,925 | 5,805,289 | 4,624,288 | 9,017,623 | 114,726,385 | 151,058,510 |

Note: For demand deposits included in “Deposits and remittances,” the amount will be disclosed in the earliest period since such deposits can be withdrawn at anytime.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

F. Maturity analysis of derivatives liabilities

a. Net settled derivatives

Net settled derivatives engaged by the Bank and its subsidiaries include but not limited to:

Foreign exchange derivatives: non-deliverable forwards and net settled FX options;

Interest rate derivatives: forward rate agreement, interest rate swaps, and interest rate futures;

Other derivatives: equity options and commodity futures.

For derivatives held by trading purpose, the amount will be disclosed in the earliest period with fair value to reflect the nature of short-term trading behavior; for hedging derivatives, the amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheets. The maturity analysis of net settled derivatives liabilities is as follows:

| | December 31, 2016 | | | | | |
|---|-------------------|------------|-------------|---------------|-------------|------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | Total |
| Derivative financial liabilities measured at fair value through profit and loss | | | | | | |
| — Foreign exchange derivatives | \$ 16,451,724 | - | - | - | - | 16,451,724 |
| — Interest rate derivatives | 14,057,424 | - | - | - | - | 14,057,424 |
| — Other derivatives | 32,503 | - | - | - | - | 32,503 |
| Derivative financial liabilities—hedging | | | | | | |
| — Foreign exchange derivatives | 2,576,767 | 1,922,403 | - | - | - | 4,499,170 |
| — Interest rate derivatives | 14,789 | - | 14,807 | 31,809 | 75,721 | 137,126 |
| Total | \$ 33,133,207 | 1,922,403 | 14,807 | 31,809 | 75,721 | 35,177,947 |

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| | December 31, 2015 | | | | | |
|---|-------------------|------------|-------------|---------------|-------------|------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | Total |
| Derivative financial liabilities measured at fair value through profit and loss | | | | | | |
| — Foreign exchange derivatives | \$ 31,506,480 | - | - | - | - | 31,506,480 |
| — Interest rate derivatives | 16,637,436 | - | - | - | - | 16,637,436 |
| — Other derivatives | 105,550 | - | - | - | - | 105,550 |
| Derivative financial liabilities—hedging | | | | | | |
| — Foreign exchange derivatives | 1,478,749 | 1,970,813 | - | - | - | 3,449,562 |
| — Interest rate derivatives | 20,857 | 2,888 | 19,935 | 32,425 | 138,661 | 214,766 |
| Total | \$ 49,749,072 | 1,973,701 | 19,935 | 32,425 | 138,661 | 51,913,794 |

b. Gross settled derivatives

Gross settled derivatives engaged by the Bank and its subsidiaries include:

Foreign exchange derivatives: forwards, currency swaps, cross currency swaps, and gross settled currency options. For forwards, currency swaps, and cross currency swaps, the amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet; for gross settled currency options, the amount will be disclosed in the earliest period with fair value, as currency options are for trading purpose and can be disposed anytime. The maturity analysis of gross settled derivatives liabilities is as follows:

| | December 31, 2016 | | | | | |
|---|-------------------|-------------|-------------|---------------|-------------|---------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | Total |
| Derivative financial instruments measured at fair value through profit and loss | | | | | | |
| — Foreign exchange derivatives | | | | | | |
| — Cash outflow | \$ 1,131,479,325 | 892,385,725 | 468,423,033 | 315,333,575 | 29,073,699 | 2,836,695,357 |
| — Cash inflow | 1,129,380,013 | 895,106,180 | 468,956,414 | 316,309,637 | 28,829,069 | 2,838,581,313 |
| Derivative financial liabilities—hedging | | | | | | |
| — Foreign exchange derivatives | | | | | | |
| — Cash outflow | 39,031,124 | - | - | - | - | 39,031,124 |
| — Cash inflow | 39,118,473 | - | - | - | - | 39,118,473 |
| Cash outflow subtotal | 1,170,510,449 | 892,385,725 | 468,423,033 | 315,333,575 | 29,073,699 | 2,875,726,481 |
| Cash inflow subtotal | 1,168,498,486 | 895,106,180 | 468,956,414 | 316,309,637 | 28,829,069 | 2,877,699,786 |
| Net cash flow | \$ (2,011,963) | 2,720,455 | 533,381 | 976,062 | (244,630) | 1,973,305 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| | December 31, 2015 | | | | | Total |
|---|-----------------------|--------------------|------------------|----------------|------------------|--------------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | |
| Derivative financial instruments measured at fair value through profit and loss | | | | | | |
| — Foreign exchange derivatives | | | | | | |
| — Cash outflow | \$ 1,206,603,187 | 1,143,522,733 | 631,327,035 | 576,925,955 | 77,489,814 | 3,635,868,724 |
| — Cash inflow | 1,204,513,156 | 1,141,537,754 | 631,153,432 | 577,089,321 | 78,620,151 | 3,632,913,814 |
| Derivative financial liabilities — hedging | | | | | | |
| — Foreign exchange derivatives | | | | | | |
| — Cash outflow | 25,947,748 | 14,112,408 | - | - | - | 40,060,156 |
| — Cash inflow | 25,745,858 | 13,919,058 | - | - | - | 39,664,916 |
| Cash outflow subtotal | 1,232,550,935 | 1,157,635,141 | 631,327,035 | 576,925,955 | 77,489,814 | 3,675,928,880 |
| Cash inflow subtotal | 1,230,259,014 | 1,155,456,812 | 631,153,432 | 577,089,321 | 78,620,151 | 3,672,578,730 |
| Net cash flow | <u>\$ (2,291,921)</u> | <u>(2,178,329)</u> | <u>(173,603)</u> | <u>163,366</u> | <u>1,130,337</u> | <u>(3,350,150)</u> |

G. Maturity analysis of off-balance-sheet items

Table below shows the maturity analysis of off-balance-sheet items for the Bank and its subsidiaries. The amount of the guarantee and committed credit lines will be allocated to the earliest period when such obligation can be exercised at anytime by clients. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheets.

| | December 31, 2016 | | | | | Total |
|--|-----------------------|------------|-------------|---------------|-------------|--------------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | |
| Financial guarantee contracts | \$ 72,554,100 | - | - | - | - | 72,554,100 |
| Unused amount of irrevocable loan commitments | 124,962,909 | - | - | - | - | 124,962,909 |
| Unused amount of irrevocable letter of credit | 17,825,162 | - | - | - | - | 17,825,162 |
| Unused amount of irrevocable credit card commitments | 573,824,982 | - | - | - | - | 573,824,982 |
| Total | <u>\$ 789,167,153</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>789,167,153</u> |

| | December 31, 2015 | | | | | Total |
|--|-----------------------|------------|-------------|---------------|-------------|--------------------|
| | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year | |
| Financial guarantee contracts | \$ 58,899,846 | - | - | - | - | 58,899,846 |
| Unused amount of irrevocable loan commitments | 123,306,883 | - | - | - | - | 123,306,883 |
| Unused amount of irrevocable letter of credit | 15,639,992 | - | - | - | - | 15,639,992 |
| Unused amount of irrevocable credit card commitments | 551,532,394 | - | - | - | - | 551,532,394 |
| Total | <u>\$ 749,379,115</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>749,379,115</u> |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

H. Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a. Maturity analysis of the Bank's assets and liabilities for New Taiwan Dollars

December 31, 2016

Unit: In Millions of New Taiwan Dollars

| | Total | Amount remaining to maturity date | | | | | |
|--------------------------------|--------------|-----------------------------------|------------|------------|-------------|---------------|-------------|
| | | 0~10 days | 11~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity | \$ 2,400,297 | 443,022 | 288,553 | 225,325 | 171,489 | 227,689 | 1,044,219 |
| Major cash outflow at maturity | 2,628,451 | 181,088 | 230,359 | 460,603 | 360,179 | 536,635 | 859,587 |
| Gap | (228,154) | 261,934 | 58,194 | (235,278) | (188,690) | (308,946) | 184,632 |

December 31, 2015

Unit: In Millions of New Taiwan Dollars

| | Total | Amount remaining to maturity date | | | | | |
|--------------------------------|--------------|-----------------------------------|------------|------------|-------------|---------------|-------------|
| | | 0~10 days | 11~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity | \$ 2,366,372 | 336,647 | 283,454 | 295,364 | 186,962 | 266,367 | 997,578 |
| Major cash outflow at maturity | 2,606,045 | 185,497 | 232,454 | 410,265 | 387,220 | 546,310 | 844,299 |
| Gap | (239,673) | 151,150 | 51,000 | (114,901) | (200,258) | (279,943) | 153,279 |

Note: The above tables refer to the Bank's overall position denominated in NTD.

b. Maturity analysis of the Bank's assets and liabilities for U.S. Dollars

December 31, 2016

Unit: In Thousands of U.S. Dollars

| | Total | Amount remaining to maturity date | | | | |
|--------------------------------|---------------|-----------------------------------|------------|-------------|---------------|-------------|
| | | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity | \$ 36,412,182 | 13,421,005 | 10,427,903 | 5,263,071 | 3,424,980 | 3,875,223 |
| Major cash outflow at maturity | 43,441,625 | 14,569,181 | 10,168,134 | 5,686,619 | 6,878,357 | 6,139,334 |
| Gap | (7,029,443) | (1,148,176) | 259,769 | (423,548) | (3,453,377) | (2,264,111) |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

December 31, 2015

Unit: In Thousands of U.S. Dollars

| | Total | Amount remaining to maturity date | | | | |
|--------------------------------|---------------|-----------------------------------|-------------|-------------|---------------|-------------|
| | | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity | \$ 79,301,385 | 30,247,798 | 20,638,798 | 11,815,133 | 10,350,572 | 6,249,084 |
| Major cash outflow at maturity | 92,264,738 | 34,692,681 | 22,936,398 | 11,513,579 | 13,080,528 | 10,041,552 |
| Gap | (12,963,353) | (4,444,883) | (2,297,600) | 301,554 | (2,729,956) | (3,792,468) |

Note: The above tables refer to the Bank's overall position denominated in USD.

c. Maturity analysis of the Bank's overseas branches' assets and liabilities for U.S. Dollars

December 31, 2016

Unit: In Thousands of U.S. Dollars

| | Total | Amount remaining to maturity date | | | | |
|--------------------------------|---------------|-----------------------------------|-------------|-------------|---------------|-------------|
| | | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity | \$ 31,892,783 | 14,504,817 | 6,916,130 | 4,078,567 | 3,362,593 | 3,030,676 |
| Major cash outflow at maturity | 40,147,839 | 20,665,814 | 8,912,915 | 4,199,515 | 3,301,526 | 3,068,069 |
| Gap | (8,255,056) | (6,160,997) | (1,996,785) | (120,948) | 61,067 | (37,393) |

December 31, 2015

Unit: In Thousands of U.S. Dollars

| | Total | Amount remaining to maturity date | | | | |
|--------------------------------|---------------|-----------------------------------|-------------|-------------|---------------|-------------|
| | | 0~30 days | 31~90 days | 91~180 days | 181days~1year | Over 1 year |
| Major cash inflow at maturity | \$ 38,735,946 | 15,929,113 | 9,815,532 | 5,098,977 | 4,833,659 | 3,058,665 |
| Major cash outflow at maturity | 47,044,970 | 22,026,532 | 12,053,267 | 4,741,036 | 4,778,024 | 3,446,111 |
| Gap | (8,309,024) | (6,097,419) | (2,237,735) | 357,941 | 55,635 | (387,446) |

(e) Transferred financial assets that are not fully derecognized

The transactions, relating to transferred financial assets not qualifying for full derecognition, the Bank and its subsidiaries conduct during daily operation mostly involve securities lending in accordance to repurchase agreements. Since the right to receive contractual cash flow has been transferred to others and the Bank and its subsidiaries' obligation to repurchase the transferred assets for a fixed price at a future date is recognized under liabilities, the said transferred assets are not fully derecognized.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| December 31, 2016 | | | | | |
|--|--|--|---|---|-----------------------|
| <u>Types of financial assets</u> | <u>Carrying amount of transferred financial assets</u> | <u>Carrying amount of associated financial liabilities</u> | <u>Fair value of transferred financial assets</u> | <u>Fair value of associated financial liabilities</u> | <u>Net fair value</u> |
| Financial assets measured at fair value through profit or loss | | | | | |
| Repurchase agreement | \$ 7,909,359 | 7,916,658 | 7,909,359 | 7,916,658 | (7,299) |
| Available-for-sale financial assets | | | | | |
| Repurchase agreement | 3,256,768 | 3,174,358 | 3,256,768 | 3,174,358 | 82,410 |
| Securities lending segment | 31,213,073 | 25,268,386 | 31,213,073 | 25,268,386 | 5,944,687 |
| Held-to-maturity financial assets | | | | | |
| Repurchase agreement | 28,483,682 | 28,842,443 | 29,134,818 | 28,842,443 | 292,375 |

| December 31, 2015 | | | | | |
|--|--|--|---|---|-----------------------|
| <u>Types of financial assets</u> | <u>Carrying amount of transferred financial assets</u> | <u>Carrying amount of associated financial liabilities</u> | <u>Fair value of transferred financial assets</u> | <u>Fair value of associated financial liabilities</u> | <u>Net fair value</u> |
| Financial assets measured at fair value through profit or loss | | | | | |
| Repurchase agreement | \$ 6,300,259 | 6,310,295 | 6,300,259 | 6,310,295 | (10,036) |
| Available-for-sale financial assets | | | | | |
| Repurchase agreement | 34,937,558 | 40,222,075 | 34,937,558 | 40,222,075 | (5,284,517) |
| Securities lending segment | 25,778,849 | 14,247,666 | 25,778,849 | 14,247,666 | 11,531,183 |
| Held-to-maturity financial assets | | | | | |
| Repurchase agreement | 4,035,643 | 4,115,713 | 4,235,723 | 4,115,713 | 120,010 |

(f) Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have an exercisable master netting arrangement or similar agreement in place with counterparties. When both parties reach a consensus regarding net settlement, the aforesaid exercisable master netting arrangement or similar agreement can be net settled by offsetting financial assets and financial liabilities. If not, the transaction can be settled at the total amount. In the event of default involving one of the parties, the other party can have the transaction net settled.

The following tables present the aforementioned offsetting financial assets and financial liabilities.

| December 31, 2016 | | | | | |
|---|--|---|--|--------------------------|------------------------|
| Financial assets that are offset, have an exercisable master netting arrangement or similar agreement | | | | | |
| | Gross amounts of financial liabilities offset in the balance sheet (a) | Net amount of financial assets presented in the balance sheet (c)=(a)-(b) | Amounts not off set in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | Financial instruments (Note) | Cash collateral received | |
| Derivative financial assets | \$ 63,991,430 | - | 63,991,430 | 40,869,413 | 2,221,768 |
| | | | | | 20,900,249 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| December 31, 2016 | | | | | | |
|--|---|---|---|------------------------------------|-------------------------------|---------------------------|
| Financial liabilities that are offset, have an exercisable master netting arrangement or similar agreement | | | | | | |
| | Gross amounts of financial assets offset in the balance sheet | Net amount of financial liabilities presented in the balance sheet | Amounts not off set in the balance sheet (d) | | | |
| | Gross amounts of recognized financial liabilities (a) | (b) | (c)=(a)-(b) | Financial instruments (Note) | Cash collateral pledged | Net amount (e)=(c)-(d) |
| Derivative financial liabilities | \$ 64,282,497 | - | 64,282,497 | 36,634,381 | 11,014,451 | 16,633,665 |
| Securities lending segment | 25,268,386 | - | 25,268,386 | 25,268,386 | - | - |
| Repurchase agreement | 39,933,459 | - | 39,933,459 | 733,119 | - | 39,200,340 |
| Total | \$ 129,484,342 | - | 129,484,342 | 62,635,886 | 11,014,451 | 55,834,005 |

| December 31, 2015 | | | | | | |
|---|--|---|---|--------------------------------|---------------------------|------------|
| Financial assets that are offset, have an exercisable master netting arrangement or similar agreement | | | | | | |
| | Gross amounts of financial liabilities offset in the balance sheet (b) | Net amount of financial assets presented in the balance sheet (c)=(a)-(b) | Amounts not off set in the balance sheet (d) | | | |
| Gross amounts of recognized financial assets (a) | | | Financial instruments (Note) | Cash collateral received | Net amount (e)=(c)-(d) | |
| Derivative financial assets | \$ 81,213,038 | - | 81,213,038 | 41,504,479 | 714,887 | 38,993,672 |

| December 31, 2015 | | | | | | |
|--|--|---|--|---|-------------------------------|---------------------------|
| Financial liabilities that are offset, have an exercisable master netting arrangement or similar agreement | | | | | | |
| | | Gross amounts of financial assets offset in the balance sheet (b) | Net amount of financial liabilities presented in the balance sheet (c)=(a)-(b) | Amounts not off set in the balance sheet (d) | | |
| | Gross amounts of recognized financial liabilities (a) | | | Financial instruments (Note) | Cash collateral pledged | Net amount (e)=(c)-(d) |
| Derivative financial liabilities | \$ 89,350,651 | - | 89,350,651 | 33,220,890 | 24,514,412 | 31,615,349 |
| Securities lending segment | 14,247,666 | - | 14,247,666 | 14,247,666 | - | - |
| Repurchase agreement | 50,648,083 | - | 50,648,083 | 6,967,635 | - | 43,680,448 |
| Total | \$ 154,246,400 | - | 154,246,400 | 54,436,191 | 24,514,412 | 75,295,797 |

Note : Master netting arrangements and non-cash financial collaterals are included.

(g) Capital management

1. Capital management goal and procedure

The goal of the Bank's capital management is to meet the regulatory requirement on capital adequacy and the organization's target of maximizing returns for shareholders by following capital management procedures and raising return on capital.

The Bank's capital planning accounts for short-term and long-term capital requirements. The Bank makes yearly capital planning based on operation planning, internal planned reference index, current and forecast future capital requirement, and promised returns for shareholders. The Bank also has a back-up plan to meet capital requirement not included in the planning. The Bank also regularly conducts stress tests and scenario simulation analyses to calculate different capital ratios, fully taking into account external conditions and other factors, including potential risks, changes in financial markets, and other events impacting risk taking capabilities, to make sure that the Bank can maintain adequate capital in case of detrimental events and huge market changes.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Planning for yearly earnings distribution follows the principles and a ratio mandated by the articles of incorporation and dividend policy, and is put into effect after being approved by the board of directors on behalf of the shareholders'. Capital adequacy, potential investment needs, and dividend amount of previous years are taken into account. The needs to maintain proper financial ratios and satisfy capital requirement of the parent company are also preconditions of the distribution.

2. Definition and regulation

The regulator of the Bank is the FSC of the Republic of China, and the Bank follows the "Regulations Governing the Capital Adequacy and Capital Category of Banks" issued by the FSC.

Starting from January 1, 2013, according to the regulations aforementioned, the ratio of regulatory capital to risk-weighted assets shall mean common equity ratio, Tier 1 Capital ratio, and total capital adequacy ratio. Besides calculating these three ratios of the Bank, it should also calculate the consolidated common equity ratio, Tier 1 Capital ratio, and total capital adequacy ratio by consolidating its investments in subsidiaries in consolidated financial statements prepared in accordance with IAS 27, and the three consolidated ratios should follow article 5 of the "Regulations Governing the Capital Adequacy and Capital Category of Banks".

3. Regulatory capital

The Bank's regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital following the "Regulations Governing the Capital Adequacy and Capital Category of Banks":

- A. Net Tier 1 Capital: The aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.
- Net common equity Tier 1 Capital: Primarily consists of the aggregate amount of Common stock and additional paid-in capital in excess of par - common stock, Capital collected in advance, Capital reserves, Statutory surplus reserves, Special reserves, accumulated profit or loss, Non-controlling interests, and Other equity interest items, minus intangible assets (including goodwill), deferred tax assets due to losses from the previous year, the insufficiency of operation reserves and loan loss provisions, the revaluation surplus of real estate, unamortized losses on sales of non-performing loans, and statutory adjustment items calculated in accordance with "the Methods for Calculating Bank's Regulatory Capital and Risk Weighted Assets".
 - Net additional Tier 1 Capital: Consists of the aggregate amount of non-cumulative perpetual preferred stock and its capital stock premium, non-cumulative perpetual subordinated debts, additional Tier 1 Capital issued by the Bank's subsidiaries and not directly or indirectly held by the Bank, minus statutory adjustment items calculated in accordance with "the Methods for Calculating Bank's Regulatory Capital and Risk Weighted Assets."

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- B. Net Tier 2 Capital: Consists of the aggregate amount of cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, non-perpetual preferred stock and its capital stock premium; the increase in retained earnings when fair value or re-estimated value is adopted as deemed cost for the first-time adoption of IFRSs on premises, 45% of unrealized gains on changes in the fair value of investment properties using fair value method, as well as the 45% of unrealized gains on available-for-sale financial assets, operational reserves and loan-loss provisions, and Tier 2 Capital issued by the Bank's subsidiaries and not directly or indirectly held by the Bank, minus statutory adjustment items calculated in accordance with "the Methods for Calculating Bank's Regulatory Capital and Risk Weighted Assets."

The Bank issues different capital instruments via versatile venues to maintain a sound capital structure. The Bank does not provide holders of such capital instruments with relevant financing. Subsidiaries of the financial holding company, to which the Bank belongs, do not own such capital instruments.

The regulator examines a Bank's capital category in accordance with the common equity ratio, Tier 1 Capital ratio, and total capital adequacy ratio filing by the Bank. When the Bank's capital is graded as inadequate capital, significantly inadequate capital or seriously inadequate capital by the regulator, the regulator shall take prompt corrective actions pursuant to Sections 1 to 3, Paragraph 1, Article 44-2 of the Banking Act.

The aforementioned regulations governing categories issued by the regulator follows the new BASEL capital agreement issued by Bank for International Settlements. A brief description of three pillars of the agreement and the Bank's compliance with them is as below:

A. Pillar 1

Pillar 1 covers the capital requirement for credit risk, market risk, and operational risk.

- a. Credit risk measures the risk that a bank suffers losses when loan clients, guarantors or counterparties breach agreements, and can be divided into on/off balance sheet items. Measurement methods include standardized approach and internal ratings-based (IRB) approaches. The Bank adopts standardized approach in the calculation of required capital.
- b. Market risk stirs negative impact on a bank's overall revenue, capital, value or operating capacity due to changes in interest rates (including credit spread risk), foreign exchange rate, securities prices, commodities prices and its volatility, correlation interaction, market liquidity and other market risk factors. Market risk capital accrual methods include standardized approach and internal model approach. The Bank adopts standardized approach in the calculation of required capital.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- c. Operational risk is the risk that a bank suffers losses from external events or improprieties or failures of its internal operation, personnel, or systems, including legal risk, but excluding strategic and reputational risk. Methods to measure capital required for operational risk include basic indicator approach (BIA), standardized approach (SA); alternative standardized approaches (ASA), and advanced measurement approaches (AMA). The Bank adopts standardized approach in dividing the gross profits into eight business lines, and calculating required capital for each business line's operational risk based on their respective risk quotient.

B. Pillar 2

Pillar 2 ensures that each bank has a sound internal assessment process and is able to forecast its capital adequacy based on the thorough assessment of bank risks, and that, with proper regular monitoring, regulatory capital matches the overall risk characters.

For compliance with regulatory monitoring of capital adequacy, the Bank conducts regular filing of capital adequacy self-assessment and various risks management every year in accordance with regulatory mandate.

C. Pillar 3

Pillar 3 involves market discipline and requires banks to follow new BASEL capital agreement framework by disclosing more detailed information on risk, capital, and risk management, to improve banking information transparency. To be in compliance with the pillar 3 market discipline principle, the Bank has on its website a page "capital adequacy and risk management" dedicated to disclosure of qualitative and quantitative information.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

4. Capital adequacy ratios of the Bank and its subsidiaries

| Analyzed items | | | Period | December 31, 2016 | December 31, 2015 | |
|---|--------------------------------------|--|----------------------------|-------------------|-------------------|---------------|
| Regulatory capital | Common equity | | | 235,359,716 | 211,655,003 | |
| | Other tier 1 capital | | | 31,213,415 | 31,225,848 | |
| | Tier 2 capital | | | 42,822,408 | 43,200,398 | |
| | Regulatory capital | | | 309,395,539 | 286,081,249 | |
| Amount of Risk weighted assets | Credit risk | Standardized approach(SA) | | 1,906,487,836 | 1,913,322,309 | |
| | | Internal ratings-based(IRB) approach | | - | - | |
| | | Assets securitization | | 59,766,653 | 81,350,784 | |
| | Operational risk | Basic indicator approach (BIA) | | - | - | |
| | | Standardized approach (SA)/Alternative Standardized approaches (ASA) | | 140,883,092 | 132,817,691 | |
| | | Advanced measurement approaches (AMA) | | - | - | |
| | | Market risk | Standardized approach (SA) | | 103,137,164 | 75,682,237 |
| | Internal model approach | | | - | - | |
| | Total amount of risk weighted assets | | | | 2,210,274,745 | 2,203,173,021 |
| | Capital adequacy ratio | | | | 14.00% | 12.98% |
| Ratio of common equity to risk weighted assets (%) | | | | 10.65% | 9.61% | |
| Ratio of tier 1 capital to risk weighted assets (%) | | | | 12.06% | 11.02% | |
| Leverage ratio | | | | 7.06% | 6.46% | |

(AO) Structured entities that are not included in consolidated financial reports

- (a) The table below presents the types of structured entities that the Bank and its subsidiaries do not include in consolidated financial reports but in which they hold an interest.

| The types of structured entities | Nature and purpose | Interests held by the Bank and its subsidiaries |
|----------------------------------|---|--|
| Asset Backed Securities | Securitizing financial or non-financial assets and issuing them to raise funds. | Investing or lending in securities issued by these entities. |
| Private fund | Raising funds to create investment opportunities in a variety of assets. | Investing in funds issued by these entities. |

- (b) The scales of structured entities not included in consolidated financial reports as follows.

| | December 31, 2016 | December 31, 2015 |
|-------------------------|--------------------|-------------------|
| Asset Backed Securities | \$ 164,908,079,382 | 174,377,205,932 |
| Private fund | 607,730,084 | 1,420,739,807 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (c) The carrying amounts of interests held by the Bank and its subsidiaries in these structured entities as follows.

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|-----------------------------|--------------------------|
| Assets held by the Bank and its subsidiaries | | |
| Available-for-sale financial assets — net | \$ 25,407,479 | 23,764,710 |
| Loans — net | 1,646,000 | 1,652,719 |
| Held-to-maturity financial assets — net | 153,633 | 133,846 |
| Other financial assets — net | - | 22,282 |
| Other assets — net | 661,249 | 394,716 |
| Total assets held by the Bank and its subsidiaries | <u><u>\$ 27,868,361</u></u> | <u><u>25,968,273</u></u> |
| | | |
| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
| Liabilities held by the Bank and its subsidiaries | | |
| Deposits and remittances | <u><u>\$ 7,100</u></u> | <u><u>7,212</u></u> |

The maximum amount of risk exposure the Bank and its subsidiaries endure to a loss incurred from special purpose entities that are not included in consolidated financial reports is the carrying amount of interests held by the Bank and its subsidiaries.

- (d) As of December 31, 2016 and 2015, the Bank and its subsidiaries have not provided any financial support to their special purpose entities that are not included in consolidated financial reports.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

7. RELATED-PARTY TRANSACTIONS

(A) Names of related parties and relationship with the Bank

| Name of related party | Relationship with the Bank |
|---|--|
| CTBC Financial Holding Co., Ltd. | Parent company of the Bank. |
| Grand Bills Finance Corporation | Investee company under equity method |
| Taiwan Institute of Economic Research | The Bank contributed over 1/3 of its total funds. |
| CTBC Charity Foundation | // |
| CTBC Culture Foundation | // |
| CTBC Anti-Drug Educational Foundation | The company which is controlled by the same company as the Bank contributed over 1/3 of its total funds. |
| CTBC Financial Management College | The Chairman of the Bank's subsidiary is its director. |
| Kinpo Electronics, Inc. | // |
| Importer and Exporter Association of Taipei | The director of the Bank is its representative. |
| Showa Denko Hd Trace Corp. | The Chairman of the Bank is its director. |
| Straits Exchange Foundation | The Chairman of the Bank is its representative. |
| CTBC Securities Co., Ltd. | Controlled by the same company as the Bank. |
| CTBC(Mauritius) Holding Co., Ltd. | // |
| CTBC Asia Limited | // |
| CTBC Securities Investment Service Co., Ltd. | // |
| CTBC Venture Capital Co., Ltd. | // |
| CTBC Asset Management Co., Ltd. | // |
| CTBC Security Co., Ltd. | // |
| Taiwan Lottery Co., Ltd. | // |
| CTBC Investments Co., Ltd. | // |
| Taiwan Life Insurance Co., Ltd. | // |
| TLG Capital Co., Ltd. | // |
| TLG Insurance Co., Ltd. | // |
| CTBC Venture Capital Investment Management (Shanghai) Co., Ltd. | // |
| CTBC International Co., Limited. | // |
| CTBC Leasing Co., Ltd. | // |
| CTBC Capital International Co., Limited | // |
| CTBC Life Insurance Co., Ltd. | // (Note) |
| Wu Tzu Development Co., Ltd. | Taiwan Life Insurance Co., Ltd. investee company under equity method. |
| CTBC Investment Trust Funds | Securities investment trust funds managed by the company which is controlled by the same company as the Bank. |
| Mirae Investment Trust Funds | Securities investment trust funds under equity method managed by investee company which is controlled by the same company as the Bank. |
| Overseas Investment & Development Corp. | The Bank is its Chairman. |
| Wei Fu Investment Co., Ltd. | The director of the parent company. |
| Weihung Investment Co., Ltd. | The Chairman of the parent company of the Bank is its director. |
| Hewei Investment Co., Ltd. | // |
| Sunghung Investment Co., Ltd. | // |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Name of related party | Relationship with the Bank |
|---|---|
| Fenglu Development & Investment Co., Ltd. | The Chairman of the parent company of the Bank is its director. |
| United Real Estate Management Co., Ltd. | // |
| Taiwan Sports Lottery Co., Ltd. | The company's Chairman is the second-degree relative of the Chairman of the Bank's parent company. |
| Landrich International Ltd. | The corporation which (indirect) controlled in substance by the Chairman of the parent company of the Bank. |
| Kainan High School of Commerce and Industry | The Chairman of the parent company of the Bank is its body corporate representative. |
| TransWorld University | The director of the company which is controlled by the same company as the Bank is its body corporate representative. |
| Taipei Financial Center Corporation | The Chairman of the company which is controlled by the same company as the Bank is its director. |
| Taishin International Bank | // |
| Nan Ya Plastics Corporation | // |
| Nan Ya Technology Corporation | // |
| Brothers Entertaining Co., Ltd | // |
| Taiwan Relo Club, Limited | The Chairman of the company which is controlled by the same company as the Bank is its Chairman. |
| Acacia Company | The director of the company which is controlled by the same company as the Bank is its Chairman. |
| CTBC Financial Park | The director of the company which is controlled by the same company as the Bank is its body corporate representative |
| Abico Asia Capital Co., Ltd. | The General Manager of the company which is controlled by the same parent company as the Bank is its director. |
| Huaku Development Co., Ltd. | The company's General Manager is the second-degree relative of the director. |
| The Third Wednesday Club | The Chairman of the Bank's subsidiary is its representative. |
| Chailease Finance Co., Ltd. | Related party in substance. |
| Sungyong Investment Co., Ltd. | // |
| Sungbo Co., Ltd. | // |
| Jungguan Investment Co., Ltd. | // |
| Kuan Ho Development Co., Ltd. | // |
| Leandev Technology Co.,Ltd. | // |
| Zhonghang Co., Ltd. | // |
| Bosser Design Inc. | // |
| Wei Chaung Information Co., Ltd | // |
| CTC Group Inc. | // |
| APEX Credit Solutions Inc. | // |
| My Leasing(Mauritius) Corp. | // |
| Changchi Investments Co., Ltd. | |
| Yi Hua Investment Co., Ltd. | // |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

| Name of related party | Relationship with the Bank |
|-----------------------|---|
| Other related parties | The directors of CTBC Financial Holding Co., Ltd. and subsidiaries (including independent directors), supervisors, managers and their families, spouses, etc. |

Note: CTBC Life Insurance Co., Ltd. was dissolved after merged with Taiwan Life Insurance Co., Ltd. on January 1, 2016.

(B) Significant transactions between related parties and the Bank

(a) Lease

For the years ended December 31, 2016 and 2015, the rental revenue that the Bank received from related parties for the rental of buildings, parking spaces, and safe deposit boxes amounted to \$213,237 and \$146,243, respectively, constituting 47.85% and 46.15%, respectively, of total rental income.

As of December 31, 2016 and 2015, deposits for renting safe boxes to related parties both amounted to \$6, and the rents received in advance from related parties amounted to \$8,243 and \$2,990, respectively. The guarantee deposit for the use of space and machinery received from related parties amounted to \$64,545 and \$39,887, respectively.

(b) Donations

| Related party | For the years ended December 31 | |
|---------------------------------------|---------------------------------|----------------|
| | 2016 | 2015 |
| CTBC Culture Foundation | \$ 49,000 | 40,000 |
| CTBC Charity Foundation | 45,820 | 911 |
| CTBC Anti-Drug Educational Foundation | 21,000 | - |
| CTBC Financial Management College | 56,222 | 92,000 |
| Total | <u>\$ 172,042</u> | <u>132,911</u> |

(c) Guarantee

| December 31, 2016 | | | | | |
|----------------------------|-----------------|----------------|------------------------------|-------------------------|--|
| Related party | Maximum balance | Ending balance | Balance of guarantee reserve | Range of interest rates | Collateral |
| Showa Denko Hd Trace Corp. | \$ 3,000 | 1,500 | - | 1% | Securities/ the NTD deposits in the Bank |
| Huaku Development Co., Ltd | 46,902 | 46,902 | - | 0.95% | None |

| December 31, 2015 | | | | | |
|----------------------------|-----------------|----------------|------------------------------|-------------------------|--|
| Related party | Maximum balance | Ending balance | Balance of guarantee reserve | Range of interest rates | Collateral |
| Showa Denko Hd Trace Corp. | \$ 3,000 | 3,000 | - | 1% | Securities/ the NTD deposits in the Bank |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(d) Loans

| December 31, 2016 | | | | | | | |
|------------------------|-------------------------------------|-----------------|----------------|-------------------|---------------|---|-----------------|
| Categories | Number/name of related parties | Maximum balance | Ending balance | Settlement status | | Collateral | Loan conditions |
| | | | | Normal loans | Overdue loans | | |
| Consumer loan—employee | 50 | \$ 21,231 | 12,997 | 12,997 | - | None | Note |
| Home loan mortgage | 395 | 2,171,218 | 1,886,911 | 1,886,911 | - | Real estate/ others | " |
| Others | Nan Ya Technology Corporation | 1,533,250 | 1,533,250 | 1,533,250 | - | Real estate/ plant/ machine room/ machinery | " |
| " | Huaku Development Co., Ltd | 1,050,000 | 1,050,000 | 1,050,000 | - | Real estate | " |
| " | Nan Ya Plastics Corporation | 1,928,682 | 743,137 | 743,137 | - | Real estate | " |
| " | CTC Group Inc. | 490,155 | 475,003 | 475,003 | - | Real estate | " |
| " | Taipei Financial Center Corporation | 416,849 | 376,756 | 376,756 | - | Real estate/ buildings for commercial use | " |
| " | Jungguan Investment Co.,Ltd. | 355,000 | 355,000 | 355,000 | - | Real estate | " |
| " | ZhonghangCo.,Ltd | 271,600 | 224,000 | 224,000 | - | Vehicle/ cargo aircraft | " |
| " | Kuan Ho Development Co., Ltd. | 245,000 | 245,000 | 245,000 | - | Real estate | " |
| " | Wei Fu Investment Co., Ltd. | 100,000 | 50,000 | 50,000 | - | Real estate | " |
| " | Sunghung Investment Co., Ltd. | 44,000 | 44,000 | 44,000 | - | Real estate | " |
| " | Changchi Investments Co., Ltd. | 10,148 | 9,454 | 9,454 | - | Real estate | " |
| " | Others | 75,016 | 63,680 | 63,680 | - | Real estate | " |

| December 31, 2015 | | | | | | | |
|------------------------|-------------------------------------|-----------------|----------------|-------------------|---------------|---|-----------------|
| Categories | Number/name of related parties | Maximum balance | Ending balance | Settlement status | | Collateral | Loan conditions |
| | | | | Normal loans | Overdue loans | | |
| Consumer loan—employee | 48 | \$ 21,472 | 9,821 | 9,821 | - | None | Note |
| Home loan mortgage | 371 | 2,141,077 | 1,847,642 | 1,847,642 | - | Real estate/ others | " |
| Others | Huaku Development Co., Ltd. | 1,050,000 | 1,050,000 | 1,050,000 | - | Real estate | " |
| " | Nan Ya Technology Corporation | 1,080,000 | 800,000 | 800,000 | - | Machinery | " |
| " | CTC Group Inc. | 518,072 | 502,106 | 502,106 | - | Real estate | " |
| " | Nan Ya Plastics Corporation | 979,632 | 468,004 | 468,004 | - | Real estate/ plant/ machine room | " |
| " | Taipei Financial Center Corporation | 449,483 | 416,849 | 416,849 | - | Real estate/ buildings for commercial use | " |
| " | Jungguan Investment Co.,Ltd. | 355,000 | 355,000 | 355,000 | - | Real estate | " |
| " | ZhonghangCo.,Ltd | 319,200 | 271,600 | 271,600 | - | Vehicle/ cargo aircraft | " |
| " | Kuan Ho Development Co., Ltd. | 245,000 | 245,000 | 245,000 | - | Real estate | " |
| " | Wei Fu Investment Co., Ltd. | 90,000 | 50,000 | 50,000 | - | Real estate | " |
| " | Sunghung Investment Co., Ltd. | 44,000 | 44,000 | 44,000 | - | Real estate | " |
| " | Changchi Investments Co., Ltd. | 10,780 | 10,058 | 10,058 | - | Real estate | " |
| " | Acacia Company | 5,000 | 5,000 | 5,000 | - | Other/ batch-type credit guarantee | " |
| " | Others | 55,719 | 47,346 | 47,346 | - | Real estate | " |

Note: The terms of loans between related and non-related parties are identical.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(e) Deposits

| December 31, 2016 | | | | |
|---|------------------------|-----------------------|--------------------------------|--|
| Related party | Maximum balance | Ending balance | Range of interest rates | Interest expenses (for the year 2016) |
| Taiwan Life Insurance Co., Ltd. | \$ 37,154,366 | 10,528,663 | 0~0.30% | 4,907 |
| Showa Denko Hd Trace Corp. | 4,805,375 | 2,509,340 | 0~1.41% | 22,793 |
| CTBC Securities Co., Ltd. | 3,677,771 | 1,963,757 | 0~1.21% | 10,463 |
| CTBC Charity Foundation | 1,156,776 | 943,796 | 0~1.21% | 6,347 |
| CTBC Financial Holding Co., Ltd. | 14,701,563 | 754,834 | 0~0.08% | 213 |
| Taiwan Sports Lottery Co., Ltd. | 1,301,224 | 732,396 | 0~0.08% | 187 |
| Taiwan Lottery Co., Ltd. | 1,465,582 | 508,823 | 0~0.55% | 1,328 |
| Wu Tzu Development Co., Ltd. | 683,791 | 462,327 | 0~0.08% | 83 |
| CTBC Asset Management Co., Ltd. | 1,055,686 | 435,068 | 0~1.20% | 1,304 |
| Taiwan Institute of Economic Research | 451,058 | 407,845 | 0~1.37% | 2,380 |
| CTBC Investments Co., Ltd. | 443,278 | 402,632 | 0~0.45% | 1,510 |
| Kainan High School of Commerce and Industry | 374,340 | 335,996 | 0~1.37% | 2,588 |
| Overseas Investment & Development Corp. | 341,495 | 299,509 | 0~1.53% | 957 |
| TransWorld University | 254,034 | 234,035 | 0~1.22% | 518 |
| Straits Exchange Foundation | 187,030 | 187,030 | 0.15~1.37% | 2,366 |
| Fenglu Development & Investment Co., Ltd. | 178,938 | 177,513 | 0~0.08% | 45 |
| CTBC Venture Capital Co., Ltd. | 1,178,285 | 166,765 | 0~0.08% | 25 |
| Grand Bills Finance Corporation | 304,283 | 157,030 | 0~6.10% | 2,299 |
| CTBC Financial Management College | 177,219 | 153,196 | 0~1.23% | 295 |
| Wei Fu Investment Co., Ltd. | 263,830 | 139,584 | 0~0.05% | 11 |
| Yi Hua Investment Co., Ltd. | 112,301 | 112,178 | 0~0.08% | 5 |
| Sungyong Investment Co., Ltd. | 137,462 | 109,836 | 0~0.08% | 33 |
| Others | 19,462,787 | 6,455,161 | | 38,054 |
| Total | \$ 89,868,474 | 28,177,314 | | 98,711 |

| December 31, 2015 | | | | |
|---|------------------------|-----------------------|--------------------------------|--|
| Related party | Maximum balance | Ending balance | Range of interest rates | Interest expenses (for the year 2015) |
| Taiwan Life Insurance Co., Ltd. | \$ 25,878,918 | 25,878,918 | 0~0.65% | 2,750 |
| Showa Denko Hd Trace Corp. | 4,901,855 | 3,766,981 | 0~1.35% | 14,512 |
| CTBC Life Insurance Co., Ltd. | 19,294,132 | 3,706,034 | 0~0.6% | 7,566 |
| CTBC Securities Co., Ltd. | 3,765,610 | 1,903,127 | 0~1.35% | 12,829 |
| CTBC Financial Holding Co., Ltd. | 16,599,011 | 1,854,073 | 0~0.17% | 3,455 |
| CTBC Charity Foundation | 1,328,042 | 1,090,386 | 0~1.35% | 8,258 |
| Abico Asia Capital Co., Ltd. | 1,001,000 | 939,537 | 0~1.09% | 1,401 |
| Taiwan Sports Lottery Co., Ltd. | 1,114,698 | 804,450 | 0~0.17% | 1,067 |
| CTBC Investments Co., Ltd. | 461,278 | 426,595 | 0~0.75% | 1,587 |
| Taiwan Lottery Co., Ltd. | 1,850,677 | 419,120 | 0~0.55% | 3,309 |
| Taiwan Institute of Economic Research | 446,689 | 386,229 | 0~1.40% | 2,048 |
| Overseas Investment & Development Corp. | 377,893 | 337,543 | 0~1.10% | 917 |
| Kainan High School of Commerce and Industry | 405,969 | 290,350 | 0~1.37% | 3,006 |
| CTBC Venture Capital Co., Ltd. | 399,482 | 214,366 | 0~0.17% | 131 |
| Straits Exchange Foundation | 187,164 | 187,030 | 0.02~1.37% | 2,456 |
| Hewei Investment Co., Ltd. | 337,350 | 183,176 | 0~0.17% | 423 |
| Fenglu Development & Investment Co., Ltd. | 300,307 | 165,830 | 0~0.17% | 183 |
| Kuan Ho Development Co., Ltd. | 254,132 | 154,393 | 0~0.17% | 233 |
| My Leasing (Mauritius) Corp. | 1,291,229 | 149,698 | 0.02~0.3% | 112 |
| Sungyong Investment Co., Ltd. | 282,081 | 137,456 | 0~0.17% | 202 |
| CTBC Financial Management College | 135,296 | 129,917 | 0~1.37% | 75 |
| Weihung Investment Co., Ltd. | 298,396 | 114,254 | 0.01~0.04% | 55 |
| Jungguan Investment Co., Ltd. | 361,256 | 110,142 | 0~0.17% | 273 |
| Others | 14,715,658 | 5,635,055 | | 45,512 |
| Total | \$ 95,988,123 | 48,984,660 | | 112,360 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(f) Call loans to banks

| Related party | For the year ended December 31, 2016 | | |
|---------------------------------|---|--------------------------------|--------------------------|
| | Ending balance | Range of interest rates | Interest revenues |
| Grand Bills Finance Corporation | \$ - | 0.31% | 25 |

| Related party | For the year ended December 31, 2015 | | |
|----------------------------|---|--------------------------------|--------------------------|
| | Ending balance | Range of interest rates | Interest revenues |
| Taishin International Bank | \$ - | 0.08~3.80% | 553 |

(g) Financial derivatives

| December 31, 2016 | | | | | | |
|------------------------------|---|---------------------------|---------------------------|---------------------------------|----------------------|-----------------------|
| Related party | Derivative financial instruments | Contract period | Notional principal | Unrealized profit (loss) | Balance sheet | |
| | | | | | Account | Ending Balance |
| CTBC Investments Trust Funds | Foreign exchange swap | 12.13.2016~ 01.17.2017 | USD 5,000 | 2,836 | (Note1) | 2,836 |

| December 31, 2015 | | | | | | |
|---------------------------------|---|---------------------------|---------------------------|---------------------------------|----------------------|-----------------------|
| Related party | Derivative financial instruments | Contract period | Notional principal | Unrealized profit (loss) | Balance sheet | |
| | | | | | Account | Ending Balance |
| Taiwan Life Insurance Co., Ltd. | Non-deliverables | 08.05.2015~ 01.11.2016 | NTD 3,165,200 | (147,276) | (Note2) | (147,276) |
| " | " | 01.05.2015~ 03.24.2016 | USD 130,000 | 179,103 | (Note1) | 179,103 |

Note 1: Financial assets measured at fair value through profit or loss.

Note 2: Financial liabilities measured at fair value through profit or loss.

(h) Trading of bills and bonds

| Related party | For the year ended December 31, 2015 | |
|----------------------------|---|-----------------------------|
| | Bills and bonds purchased | Bills and bonds sold |
| Taishin International Bank | \$ 450,000 | - |

(i) Securities purchased under reverse repurchase agreements

| Related party | For the year ended December 31, 2016 | | |
|------------------------------|---|-------------------------|-------------------------|
| | Ending balance | Interest payable | Interest expense |
| Straits Exchange Foundation | \$ 18,100 | 493 | 493 |
| Mirae Investment Trust Funds | - | 1,447 | 1,447 |
| | \$ 18,100 | 1,940 | 1,940 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(j) Others

(1) Commission and other income

| Related party | Summary | For the years ended December 31 | |
|----------------------------------|--|---------------------------------|----------------|
| | | 2016 | 2015 |
| CTBC Financial Holding Co., Ltd. | Allocation of information, commission income and income from group catering | \$ 31,995 | 28,267 |
| CTBC Securities Co., Ltd. | Allocation of information, profits from selling products, income from group catering and commission income | 16,678 | 16,336 |
| CTBC Investments Co., Ltd. | Commission for trust, allocation of information, feedback fund and income from group catering | 47,696 | 75,647 |
| Taiwan Lottery Co., Ltd. | Income from group catering, allocation of information and income from machine relocation | 7,446 | 7,228 |
| CTBC Asia Limited | Commission income | 2,560 | 2,568 |
| CTBC Life Insurance Co., Ltd. | Allocation of information, profits from selling products and commission income | - | 571,045 |
| Chailease Finance Co., Ltd. | Management revenue and commission income | - | 1,352 |
| Kinpo Electronics, Inc. | Commission income | 2,013 | 2,084 |
| Huaku Development Co., Ltd. | Commission income | 600 | 600 |
| Taiwan Life Insurance Co., Ltd. | Commission for joint sales, income from group catering and commission income | 5,648,187 | 8,532 |
| TLG Insurance Co., Ltd. | Commission income and bonus for joint sales campaigns | 20,031 | 1,454 |
| Grand Bills Finance Corporation | Commission income | 898 | 521 |
| Mirae Investment Trust Funds | Commission income | 2,305 | - |
| CTBC Venture Capital Co., Ltd. | Remittance fees, confirmation fees, income from group catering and allocation of information | 556 | - |
| Individuals | Commission for funds | 3,745 | 9,379 |
| | | <u>\$ 5,784,710</u> | <u>725,013</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The balance of accounts receivable for foregoing transactions were as follows:

| Related party | Summary | December31, 2016 | December31, 2015 |
|----------------------------------|--|-------------------------|-------------------------|
| CTBC Financial Holding Co., Ltd. | Allocation of information, commission income and income from group catering | \$ 5,949 | 1,823 |
| CTBC Securities Co., Ltd. | Allocation of information, profits from selling products, income from group catering and commission income | 421 | 1,846 |
| CTBC Investments Co., Ltd. | Commission for trust, allocation of information, feedback fund, and income from group catering | 278 | 341 |
| Taiwan Lottery Co., Ltd. | Income from group catering, allocation of information and income from machine relocation | 745 | 599 |
| CTBC Asia Limited | Commission income | 128 | 163 |
| CTBC Life Insurance Co., Ltd. | Allocation of information, profits from selling products and commission income | - | 324,881 |
| Kinpo Electronics, Inc. | Commission income | 224 | 322 |
| Taiwan Life Insurance Co., Ltd. | Commission for joint sales, allocation of information profits from selling products and commission income | 461,251 | 3,948 |
| TLG Insurance Co., Ltd. | Commission income and bonus for joint sales campaigns | 3 | 2 |
| Grand Bills Finance Corporation | Commission income | 73 | 36 |
| Mirae Investment Trust Funds | Commission income | 157 | - |
| CTBC Venture Capital Co., Ltd. | Remittance fees, confirmation fees, income from group catering and allocation of information | 144 | - |
| | | \$ 469,373 | 333,961 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(2) Handling fees and other general administration expenses

| Related party | Summary | For the years ended December 31 | |
|---|---|---------------------------------|------------------|
| | | 2016 | 2015 |
| Taiwan Lottery Co., Ltd. | Lottery service fees | \$ 1,481,661 | 2,261,302 |
| Brothers Entertaining Co., Ltd. | Sponsorship and advertising expenses | 208,771 | 210,812 |
| CTBC Security Co., Ltd. | Security fees | 126,348 | 131,357 |
| Taiwan Life Insurance Co., Ltd. | Group insurance fees, bonus for joint sales campaigns and rental fees | 118,472 | 1,320 |
| Taiwan Relo Club, Limited | Marketing fees and gift expenses | 41,873 | 40,673 |
| Chailease Finance Co., Ltd. | Leasing of official vehicles, rental fees and business service fees | 25,033 | 59,677 |
| Taiwan Institute of Economic Research | Expense for domestic economics research and business consulting commissioned research | 15,850 | 10,200 |
| APEX Credit Solutions Inc. | Collection assistance fees | 17,986 | 21,182 |
| Taipei Financial Center Corporation | Sponsorship, joint-brand credit card payment, gift certificate and ATM utilities | 60,892 | 99,220 |
| Bosser Design Inc. | Upholstery fees, repair expenses and interior renovation fees | 10,371 | 25,191 |
| CTBC Securities Co., Ltd. | Service fees for trust, brokerage fees, year-end party fees and rental fees | 41,099 | 41,849 |
| Sungbo Co., Ltd. | Gift expenses | 2,074 | 2,509 |
| Importer and Exporter Association of Taipei | Rental fees, utilities expenses and management fees for branches | - | 4,431 |
| Landrich International Ltd. | Gift expenses | 162 | 725 |
| CTBC Life Insurance Co., Ltd. | Group insurance fees and bonus for joint sales campaigns | - | 110,676 |
| The Third Wednesday Club | Annual fee and sponsorship | 100 | 3,309 |
| Leandev Technology Co., Ltd. | System function improvement fees | 443 | 1,903 |
| CTBC Financial Park | Cleaning fees and management fees | 148,116 | - |
| United Real Estate Management Co., Ltd. | Rental fees | 1,027 | - |
| Wei Chaung Information Co., Ltd. | System development and maintenance fees | 360 | 632 |
| CTBC Culture Foundation | Sponsorship and marketing feedback fund | 6,238 | 2,783 |
| TLG Insurance Co., Ltd. | Insurance fees | 10,389 | - |
| TLG Capital Co., Ltd. | Rental fees for official vehicles | 641 | - |
| | | \$ 2,317,906 | 3,029,751 |

Foregoing transactions, accounts payable balances were as follows:

| Related party | Summary | December 31, 2016 | December 31, 2015 |
|---------------------------------------|---|-------------------|-------------------|
| Taiwan Lottery Co., Ltd. | Lottery service fees | \$ 327,346 | 1,086,226 |
| CTBC Security Co., Ltd. | Security fees | 8,385 | 8,087 |
| Taiwan Life Insurance Co., Ltd. | Group insurance fees, bonus for joint sales campaigns and rental fees | 12,134 | - |
| Taiwan Institute of Economic Research | Expense for domestic economics research and business consulting commissioned research | 4,150 | - |
| APEX Credit Solutions Inc. | Collection assistance fees | 2,808 | 3,333 |
| CTBC Securities Co., Ltd. | Service fees for trust, brokerage fees, year-end party fees and rental fees | 9,409 | 6,400 |
| CTBC Life Insurance Co., Ltd. | Group insurance fees and bonus for joint sales campaigns | - | 11,528 |
| TLG Insurance Co., Ltd. | Insurance fees | 250 | - |
| Sungbo Co., Ltd. | Gift expenses | 88 | - |
| CTBC Financial Park | Cleaning fees | 28,000 | - |
| CTBC Culture Foundation | Sponsorship and marketing feedback fund | 513 | - |
| | | \$ 393,083 | 1,115,574 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(3) Others

| <u>Related party</u> | <u>Summary</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-------------------------------------|---|--------------------------|--------------------------|
| Chailease Finance Co., Ltd. | Released undue loans (Note) | \$ 81,569 | 307,708 |
| CTBC Asia Limited | Advances for office rentals | 4,427 | 4,527 |
| Taipei Financial Center Corporation | Balance of shareholdings | 371,250 | 371,250 |
| Others | Advances for utilities expenses, security fees, training and other expenses | 6,270 | 4,907 |
| | | <u>\$ 463,516</u> | <u>688,392</u> |

Note: The Bank signed a strategic alliance agreement with Chailease Finance Co., Ltd. agreeing loans will be released directly to Chailease's clients, and Chailease pledged to buyback and settle all debts once any delay arises.

Please refer to Note 9(A) for more information regarding the Bank loaned to PT Bank CTBC Indonesia, CTBC Bank (Philippines) Corp. and The Tokyo Star Bank, Ltd. with guaranteed.

No significant discrepancy in transaction terms found between related party transaction and non-related party transaction.

(C) Key management personnel compensation in total

| | <u>For the years ended December 31</u> | |
|---|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Salary and other short-term employee benefits | \$ 1,100,631 | 1,120,607 |
| Post-employment benefits | 20,275 | 68,017 |
| Other long-term employee benefits | 11 | - |
| Share-based payment | 254,867 | 236,070 |
| Total | <u>\$ 1,375,784</u> | <u>1,424,694</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

8. PLEDGED ASSETS

Pledged assets of the Bank and its subsidiaries were as follows:

| Unit: In Thousands of New Taiwan Dollars | | | | |
|--|---|----------------------------------|-------------------|--|
| Assets | Type of securities | Par value of refundable deposits | | Purpose of collateral |
| | | December 31, 2016 | December 31, 2015 | |
| Due from Central Bank and call loans to bank | Time deposit | 3,500,000 | - | Deposits for calling loans in foreign currency |
| | " | 5,500,000 | 4,400,000 | Call loan liquidation account in U.S. dollars |
| | " | 800,000 | 800,000 | Call loan liquidation account in JPY Dollars |
| | " | 100,000 | 100,000 | Deposits for bills dealer |
| | " | 500,000 | - | Daytime overdraft |
| Available-for-sale financial assets — net | Bond | 4,437,625 | 5,643,281 | Credit line from Federal Reserve Bank and other deposits |
| | NCD of Central Bank | 8,500,000 | - | Daytime overdrafts of Central Bank |
| | " | 4,500,000 | - | Call loan liquidation account in U.S. dollars |
| | " | 6,500,000 | - | Deposits for calling loans in foreign currency |
| | Government bond | 203,938 | 211,477 | Overdrafts secured |
| | " | 2,898,172 | 22,002,097 | Guarantee deposits for transaction settlements and call loans from banks |
| | " | 29,215,447 | 24,688,027 | Repurchase agreement pledge |
| | " | 639,742 | 330,940 | Futures margins |
| | " | 2,767,752 | 8,256,109 | Marketable securities entrusted |
| | " | 58,093 | 49,900 | Other required reserve and guarantee deposit |
| Receivables | Matured securities classified under other receivables | 9,900 | 2,200 | Deposits for litigation and others |
| Held-to-maturity financial assets — net | NCD of Central Bank | - | 9,000,000 | Daytime overdrafts of Central Bank |
| | " | - | 10,000,000 | Deposits for calling loans in foreign currency |
| | " | - | 5,600,000 | Call loan liquidation account in U.S. dollars |
| | NCD | 391,000 | 391,000 | Guarantee fulfillment of long-term prepaid rent |
| | Government bond | 490,000 | 490,000 | Trust funds reserve |
| | " | 150,000 | 150,000 | Bond settlement reserves |
| | " | 54,100 | 72,900 | Deposits for litigation and others |
| | " | 5,000 | 5,000 | Other (Bid bond) |
| Other financial assets | Time deposit | 120,000 | 70,000 | Operational guarantee deposit for securities dealer |
| | " | 40,000 | 40,000 | Underwriting guarantee deposit for securities dealer |
| | " | 10,000 | 10,000 | Guarantee deposit for futures dealer |
| | " | 243,726 | 242,869 | CPC Corporation, Taiwan guarantee fulfillment |
| | " | 49,500 | 49,500 | Public welfare walkway guarantee fulfillment |

As of December 31, 2016 and 2015, the deposits for public welfare lottery issuance of the Bank's irrevocable standby letter of credit were all \$1,050,000.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(A) Major commitments and contingencies

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Contingent liabilities from guarantee and letter of credit business | \$ 71,292,721 | 76,308,410 |
| Promissory note to Central Bank for Bank's clearance | 1,472,619 | 1,793,032 |
| Client notes in custody | 89,970,027 | 98,204,393 |
| Marketable securities and debts in custody | 1,278,141,057 | 482,388,251 |
| Consigned travelers' checks in custody | 325,053 | 361,597 |
| Designated purpose trust accounts | 763,869,994 | 836,715,001 |
| Other items in custody | 451,386 | 456,473 |
| Total | <u>\$ 2,205,522,857</u> | <u>1,496,227,157</u> |

As of December 31, 2016 and 2015, the credit amount of the cancellable loan commitments of the Bank and its subsidiaries were \$1,695,537,471 and \$1,608,365,918, respectively.

On September 1, 2012, the Bank signed a formal renewal of the services contract for information resources supply the Bank with International Business Machines, authorizing a five year contract term commencing from September 1, 2012, and ending on August 31, 2017, for the amount of \$1,805,000, which includes a fixed monthly fee of \$7,844 comprising a host computer lease fee, an authorization fee, and an annual software maintenance fee.

The Bank was designated by the Ministry of Finance (the "MOF") as the issuing institution for the fourth term of public welfare lottery. The periods of for each term are from January 1, 2014 to December 31, 2023, respectively. The Bank was authorized to arrange and issue traditional lottery, scratch and win lottery, and computerized lottery tickets. For the fourth term of public welfare lottery, the Bank receives a commission for issuing lottery tickets, representing 4.35% of the total lottery sales amount. The commission will be settled monthly. And the Bank's profit will be what remains after a fixed payment of \$2,700,000 to the MOF per year. However, if the amount of annual total lottery sales of year of 2015 is less than 80% of promised sales, which is \$116 billion, then the Bank needs to pay 26.75% of the shortage between the promised and actual sales amount to the government. Furthermore, in order to ensure that the lottery prize pay out rate is not greater than 60% of the lottery issuing amount, the Bank created a transitional monitoring account, provision for the lottery prize. By creating the account, the Bank also helps the Government to settle and distribute the public welfare earnings. The amount of provision for the lottery prize may be negative (debit) or positive (credit), depending on the possibility of winning the lottery. In accordance with MOF Tai Cai Ku No. 09800050290, the Bank has the financial responsibility for the negative provision for the lottery prize. When the period designated by the MOF ends and the amount of provision for the lottery prize is negative, the Bank has to absorb it. However, the Bank has already adopted appropriate risk control strategies in order to control the aforesaid financial risk.

On May 31, 2013, the Bank signed a contract with LotRich Information Co. for lottery software, hardware purchase and establishment and maintenances services amounting to \$2,322,756 (within which \$1,633,581 was for software service). The maintenance service started from May 31, 2013 to December 2023.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

The Bank entrusted Taiwan Lottery Co., Ltd. to operate the public welfare lottery's ticket issuing, sales, promotion, drawing, payment of prize, and management, with a contract period from November 11, 2013, and ending on June 30, 2024. The Bank will disburse 4.35% of the total lottery sales amount as commission to Taiwan Lottery Co., Ltd.. The Bank agreed that Taiwan Lottery Co., Ltd. can receive a reward, amounting to the commission revenue after the deduction of value-added tax (VAT), rebates and direct costs incurred for the lottery business, and the addition of marginal benefits, if the balance is positive. Otherwise, Taiwan Lottery Co., Ltd. should pay for the discrepancy, if the balance is negative. On May 20, 2015, the reward calculation was revised by deleting the addition of marginal benefits, and was retroactively applied from January 1, 2015.

To help PT Bank CTBC Indonesia obtain financing facility, the Bank has issued Letters of Comfort to financial institutions on November 5, 2014 to declare that the operation of the company is actively supported by the Bank. The credit application amounts is US\$16,500 thousand.

To help PT Bank CTBC Indonesia obtain financing facility, the Bank has issued Letters of Comfort to financial institutions on February 24, 2015 to declare that the operation of the company is actively supported by the Bank. The credit application amount is US\$20,000 thousand.

To help CTBC Bank (Philippines) Corp. obtain financing facility, the Bank has issued Letters of Comfort to financial institutions on February 24, 2015 to declare that the operation of the company is actively supported by the Bank. The credit application amount is US\$5,000 thousand.

To help The Tokyo Star Bank, Ltd. obtain financing facility, the Bank has issued Letters of Comfort to financial institutions on June 26, 2015 to declare that the financial derivatives business of the company is actively supported by the Bank.

On September 4, 2012, the Bank signed with Continental Development Corporation a contract of purchase of buildings and land. The Bank will obtain the rights of land, zone 99 & 100 at Huikuo Section, Xitun District, Taichung City, currently owned by Continental Development Corporation, along with the 1st to 8th floors including the parking spaces of the new building located there. The \$2,181,339 contract price was negotiated based on the appraisal report prepared by DTZ Real Estate Appraisal Firm and Savills Real Estate Appraisal Firm. The contract price will be paid in installments proportionately with construction progress during the contract period, accounted for under premises and equipment—net, prepayment for land and buildings. As of December 31, 2016, the outstanding balance amounted to \$577,980.

On May 21, 2014, the Bank signed with Yung-Yue Construction and Development Co., Ltd. and Lian Hong Construction Co., Ltd. a contract of purchase of buildings and land. The Bank will obtain the rights of land, zone 15-2 at An-Kang Section, Nei-Hu District, Taipei City, along with the seven floors above ground as well as three floors underground of the building located there. The \$1,289,000 contract price was negotiated based on the appraisal report prepared by DTZ Real Estate Appraisal Firm and Prudential Cross-strait Real Estate Appraisal Firm. The contract price will be paid in contractual installments, accounted for under premises and equipment-net, prepayment for land and buildings. As of December 31, 2016, the outstanding balance amounted to \$50,830.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

On July 23, 2015, the Bank signed with Yung-Yue Construction and Development Co., Ltd. and Chong Hong Construction Co., Ltd. a contract of purchase of buildings and land. The Bank will obtain the rights of land, zone 13-1 and 13-7 at An-Kang Section, Nei-Hu District, Taipei City, along with the ten floors above ground as well as four floors underground of the new buildings located there. The \$5,139,800 contract price was negotiated on the appraisal report prepared by Elite Real Estate Appraisers Firm and Grand Elite Real Estate Appraisers Firm. The contract price will be paid in contractual installments, amounted for under premises and equipment-net, prepayment for land and buildings. As of December 31, 2016, the outstanding balance amounted to \$792,346.

- (B) The below information is shown based on the disclosure requirements of Enforcement Rules of the Trust Enterprise Act, Article 17.

Balance Sheet of Trust Accounts

| Trust Assets | December 31, 2016 | December 31, 2015 | Trust Liabilities | December 31, 2016 | December 31, 2015 |
|-----------------------|--------------------------|--------------------------|---|--------------------------|--------------------------|
| Cash | \$ 35,483,750 | 38,071,165 | Payables | 260,833,297 | 339,729,105 |
| Bonds | 10,219,792 | 1,788,674 | Other liabilities | 41,507 | 86,078 |
| Stocks | 131,185,027 | 124,915,113 | Trust capital | 459,467,027 | 460,340,182 |
| Mutual funds | 254,029,498 | 266,690,084 | Miscellaneous reserves and accumulated earnings | 42,575,144 | 35,615,655 |
| Structured products | 20,545,863 | 17,474,988 | | | |
| Other investments | 1,527,761 | 3,067,621 | | | |
| Receivables | 264,950 | 17,094 | | | |
| Real estates—net | 49,454,173 | 44,550,575 | | | |
| Securities in custody | 260,190,946 | 339,089,517 | | | |
| Other assets | 15,215 | 106,189 | | | |
| Total trust assets | <u>\$ 762,916,975</u> | <u>835,771,020</u> | Total trust liabilities | <u>762,916,975</u> | <u>835,771,020</u> |

Note: As of December 31, 2016 and 2015, the Bank's Offshore Banking Unit invested in foreign securities under specific purpose trust accounts amounting to \$1,866,981 and \$3,302,451, respectively.

Properties Catalog of Trust Accounts

| Investments | December 31, 2016 | December 31, 2015 |
|------------------------|--------------------------|--------------------------|
| Cash | \$ 35,483,750 | 38,071,165 |
| Bonds | 10,219,792 | 1,788,674 |
| Stocks | 131,185,027 | 124,915,113 |
| Mutual funds | 254,029,498 | 266,690,084 |
| Structured products | 20,545,863 | 17,474,988 |
| Other investments | 1,527,761 | 3,067,621 |
| Securities in custody | 260,190,946 | 339,089,517 |
| Real estates—net | | |
| Lands | 49,368,830 | 44,467,002 |
| Buildings | 85,343 | 83,573 |
| Subtotal | <u>49,454,173</u> | <u>44,550,575</u> |
| Other assets | | |
| Prepaid other payments | 563 | 513 |
| Long-term prepaid rent | 14,652 | 10,522 |
| Pledge of rights | - | 95,154 |
| Subtotal | <u>15,215</u> | <u>106,189</u> |
| Total | <u>\$ 762,652,025</u> | <u>835,753,926</u> |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Income Statement of Trust Accounts

| | For the years ended December 31 | |
|---------------------|--|------------------|
| | 2016 | 2015 |
| Trust revenues | \$ 6,349,831 | 6,430,605 |
| Trust expenses | (580,320) | (305,988) |
| Earnings before tax | 5,769,511 | 6,124,617 |
| Income tax | (36,925) | (48,475) |
| Net profits | \$ 5,732,586 | 6,076,142 |

(C) Operating lease

Total amount of minimum future irrevocable operating lease payment of were as below:

| | December 31, 2016 | December 31, 2015 |
|-------------------|--------------------------|--------------------------|
| Less than 1 year | \$ 894,263 | 1,014,002 |
| 1 year to 5 years | 1,699,798 | 2,139,863 |
| More than 5 years | 950,578 | 523,033 |
| Total | \$ 3,544,639 | 3,676,898 |

(D) Others

(a) Structured notes case

During September to December in 2005, the Bank's Hong Kong Branch, with approval of the board's directors, purchased structured notes ("oversea structured notes") from Barclays Bank PLC at par value US\$390 million. In the year 2006, the Bank's parent company, CTBC Financial Holding Co., Ltd. (CTBC Holding), intended to invest Mega Financial Holding Company. To comply with the requirement specified in the Banking Act of The Republic of China, which requires that a commercial bank shall not invest more than five percent (5%) shares of a company, Hong Kong Branch sold the above oversea structured notes at market price to Red Fire, a special purpose vehicle acquired by the former President of the Bank's Institutional Banking, Steven C.Z. Cheng. A profit of US\$8,448 thousand incurred due to the disposal. Subsequently, Red Fire filed an application of redemption of the structured notes to Barclays Bank PLC and incurred a profit amounting to US\$30.47 million. The opening balance of US\$9.5 million was embezzled by Steven C.Z. Cheng with malicious intent, while the rest of the amount (US\$20.90 million) was remitted to CTBC Holding's overseas sub-subsidiary. In considerations of maintaining operations, the institutional director of CTBC Holding remitted an advance payment of US\$30.47 million to the Bank in accordance to the request from the FSC. No loss had incurred since the remitted amount of US\$30.47 million was far greater than US\$9.50 million, which was not remitted to CTBC Holding's overseas sub-subsidiary. On April 28, 2011, the Bank received a letter from Chung Cheng Investment and Kuan Ho Construction & Development, the institutional directors of the CTBC Holding, informed that according to the Analysis Report on the Sale of Structured Notes to Red Fire by CTBC Bank's Hong Kong Branch (the "Analysis Report"), the attachment of the letter from CTBC Holding with Chung Hsin Chin No. 1002243570005, dated March 10, 2011, the Bank did not sustain loss from the sale of the structured notes. Based on the aforesaid Analysis Report, the premise of the Bank sustaining damages no longer stands for the prior execution of the contract dated February 9, 2009 by and among CTBC Holding, Chung Cheng Investment, and Kuan Ho Construction & Development.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Therefore, the Bank has been requested to negotiate with Chung Cheng Investment and Kuan Ho Construction & Development for a reasonable resolution. On August 16, 2011, the Bank sent a letter to Chung Cheng Investment and Kuan Ho Construction & Development requesting the institutional directors of the Bank's parent company, CTBC Holding, to withdraw the right of recourse regarding the advance payment of US\$30.47 million to the Bank. The institutional directors of the Bank's parent company, CTBC Holding, responded on August 18, 2011, agreeing to the request and wishing that the Bank spends US\$20.90 million of the advance payment on emergency assistance and public welfare loans and pays US\$9.57 million to the Bank's parent company, CTBC Holding, as recovery for the investment income which originally should have been recognized by the Bank's parent company, CTBC Holding. The latter amount was considered to be the investment income of CT Opportunity Investment Company, a sub-subsidiary of CTBC Holding. The Bank has not yet fulfilled the aforementioned requirement, and the institutional directors still insisted the amount of US\$20.90 million should be designated as the fund of welfare loans for emergency salvage. The matter will be proceeded once both parties reach agreement. Cited from the internal investigation and the opinion letter from the attorney designated by the Bank's parent company, CTBC Holding, Red Fire is believed to be CTBC Holding's SPV, since the ultimate profit and loss attribution belonged to CTBC Holding. In addition, from the perspective of cash flow, Jeffrey Koo, Jr., the former Chairman of the Bank, and the three involved employees did not obtain any personal benefits through the case.

On May 31, 2013, the judgment of the second instance was delivered by Taiwan High Court (please refer to the Law and Regulations retrieval system of the Judicial Yuan, Shang Chong-Su-Zi No. 54 in 2008 and Jin Shang Chong-Su-Zi No. 75 in 2010 Criminal Judgments for relevant information). After appealing for third instance, the Supreme Court of Republic of China has revoked the original verdict in August 2014 and urged Taiwan High Court to re-examine its verdict. In this case, Red Fire is the SPV of CTBC Holding. Thus, CTBC Holding did not sustain any loss, and Jeffrey Koo, Jr., the former Chairman of the Bank, and the three involved employees did not obtain any personal benefits through the case. Furthermore, citing from the legal opinion issued by CTBC Holding's outside counsel, "With regard to the legal aspects, the case above is a criminal case, and since CTBC Holding is a corporate entity, the employees' individual criminal liability will not have any influence on CTBC Holding. Therefore, there should be no significant disadvantageous effects on the financial or business affairs of CTBC Holding. The case is now still under trial at Taiwan High Court. Although the litigation result is not yet final, the outcome should not have negative impacts on the finance and operation of CTBC Holding substantially. Guilty or not, the fact that CTBC Holding has not suffered damage would not be changed as a result."

(b) Others

As for the real estate and non-performing loans transactions among the Bank and Tectonics Laboratories Co., Ltd. and other related parties, some employees were accused in violations of Banking Act and Securities and Exchange Act for engaging in such transactions and not disclosing related-party transactions. The case was transferred by prosecutors to Taiwan High Court, who dismissed the case on May 31, 2013 as it was bundled with Shang Chong-Su-Zi No. 54 in 2008 and Jin Shang Chong-Su-Zi No. 75 in 2010 Criminal Judgments, indicating a separate investigation should be initiated. Currently, the prosecutors have requested the case to be heard simultaneously with the structured notes case by Taiwan High Court. The case is expected to have no significant effect on the Bank's operation and shareholders' equity.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Regarding to the prosecution made by the Taipei District Prosecutors Office against employees of the Bank on January 12, 2017 for earning unjust price gains in the transaction of the land at Zone 15-2, Ankang Section, Neihu Dist., Taipei City, and two buildings at Zone 13-1 and 13-7, Ankang Section, Neihu Dist., Taipei City, the legal counsel of the Bank opines, "After reviewing the information provided by the Bank, the acquisition prices of the transactions were lower than the appraised prices provided by the professional institution, and the approved prices resolved by the board of directors of the Bank. There is no other evidence showing that the appraisal reports in the transactions were unreliable. As the transaction complied with the regulations and the acquisition prices were not unreasonable, the transactions should not damage the rights and interest of the Bank and CTBC Holding. The responsible person and main shareholder of Yongyue Development Co., Ltd., the counter party of the aforementioned transactions, are Liu, Xing-Xin and Wu, Chun-Xiang. Liu, Xing-Xin is not the interested party or quasi-interested party of the Bank, while Wu, Chun-Xiang is Chang, Ming-Tian's sister in law. According to the information provided by the Bank, Chang, Ming-Tian is only a senior employee of the Bank with no direct or indirect power and responsibility in planning, commanding and controlling over the Bank. Moreover, Chang, Ming-Tian does not have decision-making power over the Bank's personnel, finance and business. The aforementioned transactions were resolved by the board of directors of the Bank and not decided by Chang, Ming-Tian. Therefore, according to Article 45, Paragraph 1 of the Financial Holding Company Act, Article 33-3 of The Banking Act of The Republic of China, Securities and Exchange Act, and its related regulations, all Chang, Ming-Tian, Yongyue Development Co., Ltd., and Wu, Chun-Xiang, are not the interested party or quasi-interested party of the Bank and the aforementioned transactions do not violate the aforementioned laws and regulations."

10. SIGNIFICANT CATASTROPHIC LOSSES: None.

11. SIGNIFICANT SUBSEQUENT EVENTS:

On March 17, 2017, to meet the demand for business development and to enhance capital liquidity, the Bank decided to issue unsecured financial debentures of 2017-1, amounting to USD\$180,000 thousand.

12. OTHERS

(A) Profitability

Unit: %

| Items | | December 31, 2016 | December 31, 2015 |
|---------------------------------|-------------------|-------------------|-------------------|
| Return on assets ratio (annual) | Before income tax | 0.82 | 1.18 |
| | After income tax | 0.66 | 1.01 |
| Return on equity ratio (annual) | Before income tax | 11.89 | 18.39 |
| | After income tax | 9.49 | 15.82 |
| Net income ratio | | 26.27 | 37.04 |

Note 1: Return on assets ratio = Net income before/after income tax ÷ average total assets.

Note 2: Return on equity ratio = Net income before/after income tax ÷ average total stockholders' equity.

Note 3: Net income ratio = Net income after income tax ÷ Net revenue.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

Note 4: Net income before/after tax represented accumulated income of current year.

- (B) The income and expenses arising from the joint marketing operation and information interoperability amongst the Financial Holding Company's subsidiaries were allocated as follows:

The Bank and Taiwan Life Insurance Co., Ltd. ("Taiwan Life") have gained from the joint business promotion. The bonus for co-marketing with Taiwan Life is shared based on annual commission rate agreed between the Bank and Taiwan Life for each insurance product.

The aforesaid allocations of revenue and expenses are disclosed in Note 7.

- (C) The Acquisition of CTBC Insurance Brokers Co., Ltd.

The Bank merged with CTBC Insurance Brokers Co., Ltd. on November 30, 2015. Both merging entities were wholly owned subsidiaries of CTBC Financial Holding Co., Ltd. According to IFRS Q&A "Interpretation For IFRS 3 On Business Combinations Controlled By The Same Company", issued by Accounting Research and Development Foundation on January 8, 2013, since there is no clear requirement in business combination under controlled by same company in IFRS 3 "Business Combinations", it is still suitable to adopt the original related interpretations.

The merger between the Bank and CTBC Insurance Brokers Co., Ltd. could qualify as a reorganization, in accordance with Interpretations (101) No. 301 issued by Accounting Research and Development Foundation, and thus both merging entities' assets and liabilities should be recorded at the book value on a consolidated basis. Additionally when the Bank prepared comparative financial statements, the financial statements were retroactively restated to reflect the merger assuming both entities had merged on January 1, 2015. The Bank acquired assets and liabilities of CTBC Insurance Brokers Co., Ltd. by issuing 52,350 thousand common shares in a 10.47-for-1 exchange for the shares of CTBC Insurance Brokers Co., Ltd. The net assets of CTBC Insurance Brokers Co., Ltd. acquired by the Bank amounted to \$2,434,477.

Each major asset, which increased due to the merger of the Bank and CTBC Insurance Brokers Co., Ltd., is provided for future operational use; therefore, there are no plans for any significant disposal of these assets.

13. Disclosure Required

- (A) Related information on significant transactions

- (a) Loans to other businesses or individuals: Not applicable to bank subsidiaries; others: None.
- (b) Endorsements and guarantees for others: Not applicable to bank subsidiaries; others: None.
- (c) Marketable securities held as of December 31, 2016 (excluding invested subsidiaries, associates and joint ventures): not applicable to banking subsidiaries; others: None.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (d) Cumulative purchases or sales of the same investee's capital stock up to \$300,000 or 10% of paid-in capital: None.
- (e) Acquisition of real estate up to \$300,000 or 10% of paid-in capital: None.
- (f) Disposal of real estate up to \$300,000 or 10% of paid-in capital: None.
- (g) Discount on commission fees for transaction with related parties up to \$5,000: None.
- (h) Receivables from related parties up to \$300,000 or 10% of paid-in capital:

Unit : In Thousands of New Taiwan Dollars

| Account receivable creditor | Counterparty | Relationship | Balance due from related party | Turnover rate | Overdue from related party | | Subsequent collections from related party | Provision for bad debt |
|-----------------------------|---------------------------------|---|--------------------------------|---------------|----------------------------|----------|---|------------------------|
| | | | | | Amount | Disposal | | |
| CTBC Bank Co., Ltd. | Taiwan Life Insurance Co., Ltd. | Controlled by the same company as the Bank. | 461,251 | - % | - | - | Fully recovered | - |

- (i) Financial derivative transactions: Not applicable to bank subsidiaries; others: None.
- (j) Information on NPL disposal transaction:

1. Summary table of NPL disposal :

Unit : In Thousands of New Taiwan Dollars/JPY Dollars

| Trade date | Counterparty | Debt component | Book value | Sale price | Gain (loss) on disposal | Additional term | Relationship |
|-------------------|----------------------------|---------------------------|-------------|-------------|-------------------------|-----------------|-------------------|
| May 11, 2016 | I.R servicing, Ltd. | Non-secured loan | JPY 112,725 | JPY 123,017 | JPY 10,292 | None | Non-related party |
| June 27, 2016 | Aurora Servicing, Ltd. | Non-secured loan | JPY 8,655 | JPY 8,656 | JPY 1 | None | Non-related party |
| June 27, 2016 | Astry Servicing, Ltd. | Non-secured loan | JPY 448,241 | JPY 241,658 | JPY (206,583) | None | Non-related party |
| June 27, 2016 | Aurora Servicing, Ltd. | Non-secured loan | JPY 57,499 | JPY 45,489 | JPY (12,010) | None | Non-related party |
| November 30, 2016 | I.R servicing, Ltd. | Non-secured loan | JPY 171,270 | JPY 161,281 | JPY (9,990) | None | Non-related party |
| November 30, 2016 | Aozora Servicing, Ltd. | Non-secured loan | JPY 28,351 | JPY 28,351 | JPY - | None | Non-related party |
| November 30, 2016 | Astry Servicing, Ltd. | Non-secured loan | JPY 14,137 | JPY 15,763 | JPY 1,626 | None | Non-related party |
| November 30, 2016 | Marunouchi servicing, Ltd. | Non-secured loan | JPY 12,191 | JPY 8,520 | JPY (3,671) | None | Non-related party |
| December 9, 2016 | JM Financial | Corporate financial loans | 61,800 | 9,522 | (52,278) | None | Non-related party |
| December 15, 2016 | Aurora Servicing, Ltd. | Non-secured loan | JPY 231,398 | JPY 70,246 | JPY (161,152) | None | Non-related party |

2. Disposal of a single batch of NPL up to \$1,000,000 and information on each transaction: None.

- (k) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

- (l) Business relationship and material transaction between the parent company and subsidiaries:

| No. (Note) | Party | Counterparty | Relationship | Transaction status for the year ended December 31, 2016 | | | |
|---------------|---------------------|-------------------------------|----------------------|---|-----------|------------------------------------|--|
| | | | | Account | Amount | Terms | Percentage of consolidated net revenues or consolidated total assets |
| 0 | CTBC Bank Co., Ltd. | CTBC Bank Corp. (USA) | Parent to subsidiary | Cash and cash equivalents / Deposits and remittances | 2,213,628 | Identical with non-related parties | 0.06% |
| " | " | The Tokyo Star Bank, Ltd. | " | Deposits from Central Bank and other banks / Due from Central Bank and call loans to bank | 1,378,500 | " | 0.04% |
| " | " | CTBC Bank (Philippines) Corp. | " | Cash and cash equivalents / Deposits and remittances | 138,113 | " | - % |
| " | " | CTBC Bank (Canada) Corp. | " | Due from Central Bank and call loans to bank/ Deposits from Central Bank and other banks | 358,920 | " | 0.01% |

Note: Serial number is determined as follows:

1. 0 represents parent company.
 2. Subsidiaries are numbered in a sequence of Arabic numerals from 1 based on company category.
- (m) Other significant transactions that may have substantial influence upon the decisions made by financial statement users: None.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(B) Related information on investee companies

Unit: In Thousands of New Taiwan Dollars/Thousands of shares

| Name of investee | Location | Major operations | Ending ratio of shares | Book value of investment | Investment gains/losses recognized in current period | Ratio of shares held by the Bank and its associates | | | | Remarks |
|--|---|--|------------------------|--------------------------|--|---|-------------------|--------------------------------------|-----------------|--|
| | | | | | | Shares currently held | Shares to be held | Total | | |
| | | | | | | | | shares | Ratio of shares | |
| CTBC Bank (Philippines) Corp. | 16th to 19th Floors, Fort Legend Towers 31 st Street corner 3rd Avenue Bonifacio Global City, Taguig City, 1634 Philippines | Primarily engages in commercial banking and financing business | 99.60% | 4,854,855 | 130,959 | 246,496 | - | 246,496 | 99.60% | The transaction on the left has been written off when composing consolidated financial report. |
| PT Bank CTBC Indonesia | Tamara Center, 15th-17th Fl., Jl Jenderal Sudirman Kav. 24 Jakarta 12920 Indonesia | Primarily engages in commercial banking and financing business | 99.00 % | 6,362,625 | 271,055 | 1 | - | 1 | 99.00% | " |
| CTBC Bank Corp.(Canada) | 1518 West Broadway, Vancouver, B.C., Canada, V6J 1W8 | Primarily engages in commercial banking and financing business | 100.00% | 1,148,385 | 85,481 | 2,312 | - | 2,312 | 100.00% | " |
| CTBC Capital Corp. | 801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, USA | Investment business | 100.00% | 22,085,457 | 649,090 | 6 | - | 6 | 100.00% | " |
| Grand Bills Finance Corporation | 11F., No.560, Sec. 4, Zhongxiao E. Rd., Da'an Dist., Taipei City 106, Taiwan (R.O.C.) | Proprietary traders of short-term bills and bonds | 21.15% | 1,868,636 | 120,509 | 114,399 | - | 114,399 | 21.15% | |
| CTBC Bank Corp.(USA) | 801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, USA | Primarily engages in commercial banking and financing business | 100.00% | 13,840,231 | 631,502 | Common shares 3 Preferred shares 100 | - | Common shares 3 Preferred shares 100 | 100.00% | The transaction on the left has been written off when composing consolidated financial report. |
| The Tokyo Star Bank, Ltd. | 2-3-5 Akasaka, Minato-Ku, Tokyo 107-8480, Japan | Primarily engages in commercial banking and financing business | 100.00% | 35,513,977 | 2,257,454 | 700 | - | 700 | 100.00% | " |
| Tokyo Star Business Finance, Ltd. | 2-7-1,Nishi-Shinjuku, Shinjuku, Tokyo | Financing and assurance business | 100.00% | 3,025,257 | 99,759 | 1,936 | - | 1,936 | 100.00% | " |
| TSB Servicer, Ltd. | 2-2-17, Akasaka, Minato, Tokyo | Debts management business | 100.00% | 496,880 | 18,223 | - | - | - | 100.00% | " |
| AZ-Star Co., Ltd | 3-2-7, Kudan-minami, Chiyodaku, Tokyo | Fund management business | 40.00% | 4,107 | 853 | - | - | - | 40.00% | |
| AZ-Star no. 1 Investment Limited Partnership | 3-2-7, Kudan-minami, Chiyodaku, Tokyo | Equity investment business | 43.98% | 342,285 | (40,602) | 3 | - | 3 | 43.98% | |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(C) Related information on investments in Mainland China:

(a) Related information on investee companies in Mainland China

Unit : In Thousands of New Taiwan Dollars/ Thousands of US Dollars/ Thousands of CNY Dollars

| Name of investee company in Mainland China | Main business | Total amount of paid-in capital | Method of investment (Note 1) | Accumulated outflow of investment from Taiwan as of January 1, 2016 | Investment flows | | Accumulated outflow of investment from Taiwan as of December 31, 2016 | Investment gains (losses) by investee (Note 2) | Percentage of ownership for direct or indirect investment | Investment gains(losses) (Note 2 (c)) | Book value as of December 31, 2016 | Accumulated inward remittance of earnings as of December 31, 2016 |
|--|--------------------|---------------------------------|-------------------------------|---|--------------------------|--------|---|--|---|---------------------------------------|------------------------------------|---|
| | | | | | Outflow | Inflow | | | | | | |
| CTBC Bank Co., Ltd., Shanghai Branch | Commercial banking | 6,194,068 USD 206,045 | Note1(3) | 6,194,068 USD 206,045 | - | - | 6,194,068 USD 206,045 | 305,093 CNY 62,841 | A branch in Shanghai; not an investee | 305,093 CNY 62,841 | 6,757,286 CNY 1,467,427 | None. |
| CTBC Bank Co., Ltd., Guangzhou Branch | " | 4,114,056 USD 130,531 | Note1(3) | 4,114,056 USD 130,531 | - | - | 4,114,056 USD 130,531 | 92,712 CNY 19,615 | A branch in Guangzhou; not an investee | 92,712 CNY 19,615 | 3,988,372 CNY 860,293 | " |
| CTBC Bank Co., Ltd., Xiamen Branch | " | 4,081,960 CNY 800,000 | Note1(3) | - | 4,081,960 CNY 800,000 | - | 4,081,960 CNY 800,000 | 52,283 CNY 10,775 | A branch in Xiamen; not an investee | 52,283 CNY 10,775 | 3,760,465 CNY 810,775 | " |

Note 1: Three methods of investment are as below; identify one of them:

1. Invest in Mainland China companies directly.
2. Re-invest in Mainland China companies through another investee in a third area. (Please identify the investee in the third area.)
3. Other method: set up new overseas branches.

Note 2: The column of "Investment gains (losses)":

1. If the company is still in the preparation process, and does not have any investment gain or loss, please specify.
2. The bases for recognition of investment income or loss have three methods, please specify.
 - a. The audited financial reports that are issued by an international accounting firm which is connected to an accounting firm in Taiwan.
 - b. The audited financial reports that are issued by the Taiwan parent company's designated accounting firm.
 - c. Others: the individual profit or loss of an oversea branch.
3. Please specify if information regarding current gains or losses of an investee is not retrievable.

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(b) Upper limit on investment in Mainland China:

Unit : In Thousands of New Taiwan Dollars

| Name of investor company | Accumulated outflow of investment from Taiwan to Mainland China as of December 31, 2016 | Investment amounts authorized by Investment Commission, MOEA | Upper limit on investment authorized by Investment Commission, MOEA |
|--------------------------|---|--|---|
| CTBC Bank Co., Ltd. | 14,390,084 | 15,206,959 | 151,858,107 |

14. Segment Information:

The Bank and its subsidiaries' provide their chief operating decision maker with necessary information according to the characteristics of the business, to facilitate the assessment of performance and allocation of operational resources. The disclosures of assets, profits and losses are the same as the summary of significant accounting policies described in Note 4.

According to IFRS 8 "Operating Segments", reportable segments are as below:

The major operating activities of Institutional Banking are commercial banking and capital market activities which provide clients with flexible and tailor-made financing services and the design, supply, and propriety trading of various financial products.

The major operating activities of Retail Banking is providing target clients with relevant financial services, including wealth management, credit cards, secured loans, and unsecured individual loans.

The major operationing activities of Japan Business are operated by The Tokyo Star Bank, Ltd.

The major operating activities of other segments are investing and general administration. For the years ended December 31, 2016 and 2015, the above operating segments did not meet the criteria for reportable segments when applying quantitative thresholds.

(A) Segment information

| For the year ended December 31, 2016 | Institutional Banking | Retail Banking | Japan Business | Other segments | Total |
|---|----------------------------------|---------------------------|---------------------------|---------------------------|----------------------|
| Net interest income | \$ 20,439,710 | 14,976,637 | 11,285,692 | 620,753 | 47,322,792 |
| Non-interest income | 11,738,005 | 22,653,412 | 3,535,740 | 2,669,439 | 40,596,596 |
| Net income | 32,177,715 | 37,630,049 | 14,821,432 | 3,290,192 | 87,919,388 |
| Net Income Before Tax | \$ 12,218,388 | 16,397,572 | 3,419,420 | (3,108,702) | 28,926,678 |
| Total assets | \$ 1,899,489,245 | 736,513,920 | 756,200,108 | 130,469,930 | 3,522,673,203 |

| For the year ended December 31, 2015 | Institutional Banking | Retail Banking | Japan Business | Other segments | Total |
|---|----------------------------------|---------------------------|---------------------------|---------------------------|----------------------|
| Net interest income | \$ 18,845,126 | 13,773,549 | 10,233,454 | 221,667 | 43,073,796 |
| Non-interest income | 10,223,556 | 24,343,171 | 3,378,783 | 11,430,811 | 49,376,321 |
| Net income | 29,068,682 | 38,116,720 | 13,612,237 | 11,652,478 | 92,450,117 |
| Net Income Before Tax | \$ 13,255,349 | 17,091,181 | 4,842,796 | 4,600,075 | 39,789,401 |
| Total assets | \$ 1,943,698,081 | 671,922,595 | 789,476,816 | 114,120,226 | 3,519,217,718 |

CTBC BANK CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

(B) Geographic segment information:

The Bank and its subsidiaries prepare geographic segment information, which is shown as below, by the geographic location of foreign operations.

| Region | For the years ended December 31 | |
|----------------------|---------------------------------|---------------------------|
| | 2016 | 2015 |
| Net income : | | |
| Taiwan | \$ 56,375,828 | 64,784,331 |
| Asia | 27,609,121 | 24,420,689 |
| North America | 3,934,439 | 3,245,097 |
| Total | <u><u>\$ 87,919,388</u></u> | <u><u>92,450,117</u></u> |
| Non-current assets : | | |
| Taiwan | \$ 75,346,876 | 89,998,610 |
| Asia | 16,806,942 | 12,119,030 |
| North America | 2,409,132 | 2,475,086 |
| Total | <u><u>\$ 94,562,950</u></u> | <u><u>104,592,726</u></u> |

- (C) Information on major customers: For the years ended December 31, 2016 and 2015, no individual customer of the Bank and its subsidiaries accounted for 10% or more of the Bank and its subsidiaries' revenue in the statements of income. Therefore, disclosure of information on major customers is not required.

CTBC BANK CO., LTD.
FINANCIAL REPORTS
December 31, 2016 AND 2015
AND
INDEPENDENT AUDITORS' REPORT

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Independent Auditors' Report

To the Board of Directors of CTBC Bank Co., Ltd.:

Opinion

We have audited the financial statements of CTBC Bank Co., Ltd. (the Bank), which comprise balance sheets as of December 31, 2016 and 2015, the statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2016 and 2015, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CTBC Bank Co., Ltd. as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended December 31, 2016 and 2015 in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants.

Basis for Opinion

We conducted our audit in accordance with the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of CTBC Bank Co., Ltd. in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

The judicial cases as stated in Note 9(D) are still under investigation by the judiciary, and the results remain uncertain. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Assessment of the fair value of financial instruments

Please refer to Note 4 (E) for the related accounting policies of the assessment of the fair value of financial instruments, Note 5 (C) for the accounting assumptions and estimation uncertainty, and Note 6 (AN) for the other details.

How the matter was addressed in our audit:

Parts of the financial instruments owned by the Bank as of December 31, 2016 were valued via evaluation model due to the lack of public transaction prices, and parts of the referred input values could not be obtained from the public market. Thus, it demands significant professional judgments from the management by using different valuation techniques and assumptions for input values. Therefore, the assessment of fair value of financial instruments is one of the key audit matters.

Our principal audit procedures included: testing the management's control procedures over measurement and disclosure of financial instruments, including evaluating how the management chooses the appropriate evaluation method and the prime parameter hypothesis, and confirming that the presentation and disclosure of financial instruments are in accordance with the International Financial Reporting Standards (IFRSs). For financial assets with active market prices, we used sampling test to assess the appropriateness of public quoted prices. As to financial assets using evaluation model to measure their fair value, we used sampling test to confirm the appropriateness of the evaluation method and the prime input values used by the management.

2. Impairment of loans and receivables

Please refer to Note 4 (E) for the related accounting policies of impairment of loans and receivables, Note 5 (A) for the accounting assumptions and estimation uncertainty, and Note 6 (H), (I) and (AN) for the other details.

How the matter was addressed in our audit:

The management assessed the impairment of loans and receivables by determining whether there is any observable evidence indicating impairment, and dividing them into collective assessment and individual assessment to measure them by using different impairment methods. For collective assessment, the impairment is calculated by establishing an impairment model and using the past loss experience on assets with similar credit risk characteristic to form basic estimation. For individual assessment, the measurement is based on expected future recoverable cash flows. The aforementioned measurement methods involved significant professional judgments and estimation by the management; therefore, the impairment of loans and receivables is one of the key audit matters.

Our principal audit procedures included: understanding the methodology and related control procedures on how the management assesses and measures the impairment amount of loans and receivables. For collective assessment, we assessed the impairment model adopted by the management and reviewed the appropriateness of the calculation of the impairment parameters (including probability of default rate and recovery rate) via sampling. For individual assessment, we used sampling test to assess the appropriateness of the estimation of future recoverable amounts and the value of collateral. Meanwhile, we assessed whether the allowance for loans and receivables meets the regulation requirement.

3. Assessment of goodwill impairment

Please refer to Note 4 (K) for the related accounting policies of goodwill impairment, Note 5 (B) for the accounting assumptions and estimation uncertainty, and Note 6 (O) for the other details.

How the matter was addressed in our audit:

The management assessed the goodwill impairment by evaluating the value in use of each cash-generating unit (CGU) and estimating the future cash flows, which require the management's significant professional judgments. Therefore, evaluating the goodwill impairment is one of the key audit matters.

Our principal audit procedures included: understanding the procedures of how the management performs the goodwill impairment test; assessing how the management identifies the CGU and the basis and assumptions of future cash flows estimation, which include the appropriateness of growth rate, discount rate and the accuracy of the calculations; comparing the results of past forecast and actual operating performance to assess the appropriateness of the method of predicting future cash flows.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (including audit committee) are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's



report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of the investment in other entities accounted for using the equity method to express an opinion on this financial statements. We are responsible for the direction, supervision, performance of the audit and developing an audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditor's report are Chen, Chun-Kuang and Lee, Feng-Hui.

KPMG

Taipei, Taiwan, (Republic of China)
March 28, 2017

Notes to Readers

The accompanying financial reports are intended only to present the financial position, financial performance and cash flows in accordance with IFRSs accepted by the Financial Supervisory Commission and not those of any other jurisdictions. The standards, procedures, and practices to audit such financial reports are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

| | December 31, 2016 | | December 31, 2015 | | | December 31, 2016 | | December 31, 2015 | |
|---|-------------------|-----|-------------------|-----|------------------------------|-------------------|---|-------------------|---|
| | Amount | % | Amount | % | | Amount | % | Amount | % |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents (Note 4 and 6(A)) | \$ 69,446,750 | 3 | 72,833,369 | 3 | LIABILITIES AND EQUITY | | | | |
| Due from Central Bank and call loans to bank (Note 6(B) and 8) | 148,680,225 | 5 | 248,590,802 | 9 | | | | | |
| Financial assets measured at fair value through profit or loss (Note 4, 6(C) and (S) and 7) | 146,617,110 | 5 | 124,547,390 | 5 | | | | | |
| Available-for-sale financial assets – net (Note 4, 6(D) and (S) and 8) | 494,842,037 | 18 | 312,512,862 | 12 | | | | | |
| Derivative financial assets – hedging – net (Note 4 and 6(E)) | 416,342 | - | 107,526 | - | | | | | |
| Securities purchased under resale agreements (Note 4, and 6(F)) | 237,500 | - | - | - | | | | | |
| Receivables – net (Note 4, 6(G) and (I), 7 and 8) | 101,211,950 | 4 | 143,388,899 | 5 | | | | | |
| Current income taxes assets (Note 4) | 585,558 | - | 745,401 | - | | | | | |
| Loans – net (Note 4, 6(H) and (I), and 7) | 1,473,721,273 | 54 | 1,464,931,962 | 55 | | | | | |
| Held-to-maturity financial assets – net (Note 4, 6(J) and (S), and 8) | 123,726,621 | 5 | 147,083,203 | 5 | | | | | |
| Investment under equity method – net (Note 4 and 6(K)) | 71,833,935 | 3 | 69,957,541 | 3 | | | | | |
| Other financial assets – net (Note 4, 6(L) and (I), and 8) | 2,298,431 | - | 1,991,949 | - | | | | | |
| Premises and equipment – net (Note 4 and 6(N)) | 43,254,831 | 2 | 46,698,560 | 2 | | | | | |
| Investment property – net (Note 4 and 6(M)) | 4,450,140 | - | - | - | | | | | |
| Intangible assets – net (Note 4 and 6(O)) | 12,186,943 | - | 11,957,294 | - | | | | | |
| Deferred income tax assets (Note 4 and 6(AA)) | 3,668,855 | - | 3,723,927 | - | | | | | |
| Other assets – net (Note 4, 6(P) and 8) | 16,930,311 | 1 | 32,879,272 | 1 | | | | | |
| TOTAL ASSETS | | | | | | | | | |
| | \$ 2,714,108,812 | 100 | 2,681,950,097 | 100 | TOTAL LIABILITIES AND EQUITY | | | | |
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The accompanying notes are an integral part of the financial reports.

CTBC BANK CO., LTD.
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | For the years ended December 31 | | | | |
|--|---------------------------------|------|--------------|------|----------|
| | 2016 | | 2015 | | |
| | Amount | % | Amount | % | Change % |
| Interest income (Note 6(AG)) | \$ 45,743,468 | 65 | 45,969,852 | 59 | - |
| Less: Interest expenses (Note 6(AG)) | (14,613,255) | (21) | (17,475,356) | (22) | (16) |
| Net interest income (Note 6(AG)) | 31,130,213 | 44 | 28,494,496 | 37 | 9 |
| Net income except interest | | | | | |
| Service fee and commission income (Note 6(AH)) | 29,905,511 | 42 | 32,270,846 | 41 | (7) |
| Gains on financial assets or liabilities measured at fair value through profit or loss (Note 6(AI)) | 5,708,913 | 8 | 10,315,840 | 13 | (45) |
| Realized gains on available-for-sale financial assets | 916,720 | 1 | 516,208 | 1 | 78 |
| Foreign exchange gain (losses) | 1,765,458 | 3 | (4,423,172) | (6) | 140 |
| Impairment loss on assets | (78,095) | - | - | - | 100 |
| Proportionate share of gains from associates or joint ventures under equity method (Note 6(K)) | 3,514,548 | 5 | 4,623,896 | 6 | (24) |
| Other net non-interest income | 615,118 | 1 | 1,869,989 | 2 | (67) |
| Gains on disposal of property - assets held for sale | - | - | 10,229,800 | 13 | (100) |
| Losses on retirement of assets | (31,378) | - | (3,071,131) | (4) | 99 |
| Public-welfare lottery payment | (2,700,000) | (4) | (2,700,000) | (3) | - |
| Net Revenue | 70,747,008 | 100 | 78,126,772 | 100 | (9) |
| Provisions for bad debt expenses and guarantee reserve (Note 6(I)) | (5,169,132) | (7) | (1,836,770) | (2) | 181 |
| Operating expenses: | | | | | |
| Employee benefits expenses (Note 6(AJ)) | (20,633,090) | (29) | (19,930,751) | (25) | 4 |
| Depreciation and amortization expenses (Note 6(AK)) | (2,157,042) | (3) | (1,979,263) | (3) | 9 |
| Other general and administrative expenses (Note 6(AM)) | (15,857,278) | (22) | (16,630,261) | (21) | (5) |
| Total operating expenses | (38,647,410) | (54) | (38,540,275) | (49) | - |
| Net Income Before Tax from Continuing Operations | 26,930,466 | 39 | 37,749,727 | 49 | (29) |
| Income tax expenses (Note 6(AA)) | (3,838,302) | (5) | (3,509,459) | (4) | (9) |
| Net Income | 23,092,164 | 34 | 34,240,268 | 45 | (33) |
| Other comprehensive income: | | | | | |
| Items that will not be reclassified subsequently to profit or loss | | | | | |
| Remeasurement gains (losses) related to defined benefit plans | 19,988 | - | (630,716) | (1) | 103 |
| Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk | (1,931,883) | (3) | 1,150,729 | 2 | (268) |
| Proportionate share of other comprehensive income (losses) from subsidiaries, associates or joint ventures under the equity method- items that will not be reclassified subsequently to profit or loss | 9,370 | - | (4,875) | - | 292 |
| Income tax related to items that will not be reclassified to profit or loss | (6,594) | - | 110,377 | - | (106) |
| Subtotal | (1,909,119) | (3) | 625,515 | 1 | (405) |
| Items that are or may be reclassified subsequently to profit or loss | | | | | |
| Exchange differences of overseas subsidiaries' financial reports translation | (2,714,590) | (4) | 1,917,918 | 2 | (242) |
| Unrealized valuation (losses) gains on available-for-sale financial assets | (1,286,537) | (2) | 439,771 | 1 | (393) |
| Proportionate share of other comprehensive losses from subsidiaries, associates or joint ventures under the equity method- items that are or may be reclassified to profit or loss | (988,807) | (1) | (703,045) | (1) | (41) |
| Income tax related to items that are or may be reclassified to profit or loss | 410,015 | 1 | 174,315 | - | 135 |
| Subtotal | (4,579,919) | (6) | 1,828,959 | 2 | (350) |
| Other comprehensive (losses) income (net amount after tax) | (6,489,038) | (9) | 2,454,474 | 3 | (364) |
| Total Comprehensive Income | \$ 16,603,126 | 25 | 36,694,742 | 48 | (55) |
| Earnings per share (unit: NT dollars) (Note 6(AF)) | \$ 1.78 | | 2.64 | | |

The accompanying notes are an integral part of the financial reports.

CTBC BANK CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2016 and 2015
(Expressed in Thousands of New Taiwan Dollars)

| | Other equity interest | | | | | | Changes in financial liabilities measured at fair value through profit or loss attributable to credit risk | | Equity attributable to former owner of business combinations under common control | Total equity |
|---|-----------------------|-----------------|---------------|-----------------|------------------------|--|--|--------------|---|----------------|
| | Capital stock | Capital surplus | Legal reserve | Special reserve | Undistributed earnings | Exchange differences of overseas subsidiaries' financial reports translation | Unrealized (losses) gains on available-for-sale financial assets | | | |
| Balance—January 1, 2015 | | | | | | | | | | |
| Net income | | | | | | | | | | |
| Other comprehensive (losses) income | | | | | | | | | | |
| Total comprehensive income | | | | | | | | | | |
| Earnings appropriation and distribution | | | | | | | | | | |
| Legal reserve appropriated | - | - | 10,278,654 | - | (10,278,654) | - | - | - | - | - |
| Special reserve appropriated | - | - | - | 10,369,908 | (10,369,908) | - | - | - | - | - |
| Cash dividends - common share | - | - | - | - | - | - | - | - | - | - |
| Stock dividends - common share | 14,113,004 | - | - | - | (14,113,004) | - | - | - | (2,613,728) | (2,613,728) |
| Reversal of special reserve | - | - | - | (760,162) | 760,162 | - | - | - | - | - |
| Reorganization | 523,500 | 1,910,977 | - | - | - | - | - | - | (2,434,477) | - |
| Balance—December 31, 2015 | 105,729,279 | 28,093,036 | 54,648,900 | 14,424,233 | 31,381,987 | (1,719,701) | (761,549) | 1,614,741 | - | 233,410,926 |
| Net income | - | - | - | - | 23,092,164 | - | - | - | - | 23,092,164 |
| Other comprehensive income (losses) | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive income (losses) | - | - | - | - | 22,764 | (2,607,009) | (1,972,910) | (1,931,883) | - | (6,489,038) |
| Earnings appropriation and distribution | - | - | - | - | 23,114,928 | (2,607,009) | (1,972,910) | (1,931,883) | - | 16,603,126 |
| Legal reserve appropriated | - | - | 10,272,080 | - | (10,272,080) | - | - | - | - | - |
| Stock dividends - common share | 24,092,108 | - | - | - | (24,092,108) | - | - | - | - | - |
| Reversal of special reserve | - | - | - | (2,982,232) | 2,982,232 | - | - | - | - | - |
| Capital increase by cash | 1,304,348 | 1,695,652 | - | - | - | - | - | - | - | 3,000,000 |
| Balance—December 31, 2016 | \$ 131,125,735 | \$ 29,788,688 | \$ 64,920,980 | \$ 11,442,001 | \$ 23,114,959 | \$ (4,326,710) | \$ (2,734,459) | \$ (317,142) | \$ - | \$ 253,014,052 |

Note: For the years ended December 31, 2016 and 2015, the estimated compensations of employees were \$13,498 and \$19,125, respectively, which were deducted from the statements of comprehensive income

The accompanying notes are an integral part of the financial reports.

CTBC BANK CO., LTD.
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | For the years ended December 31 | |
|---|--|-------------------|
| | 2016 | 2015 |
| Cash Flows from Operating Activities: | | |
| Net Income Before Tax | \$ 26,930,466 | 37,749,727 |
| Adjustments: | | |
| Income and expense items | | |
| Depreciation expenses | 1,676,500 | 1,512,091 |
| Amortization expenses | 480,542 | 467,172 |
| Provision for bad debt expenses | 5,169,132 | 1,836,770 |
| Net losses on financial assets or liabilities measured at fair value through profit or loss | 2,845,578 | 44,878 |
| Interest expenses | 14,613,255 | 17,475,356 |
| Interest income | (45,743,468) | (45,969,852) |
| Dividend income | (383,063) | (291,357) |
| Net changes in other provisions | (5,472) | (18,741) |
| Proportionate share of gains from associates or joint ventures under the equity method | (3,514,548) | (4,623,896) |
| Losses on disposal and retirement of premises and equipment | 34,586 | 2,328,906 |
| Gains on disposal of assets held for sale | - | (10,229,800) |
| Gain on disposal of investment under cost method | (918) | - |
| Impairment loss on financial assets | 3,976 | - |
| Impairment loss on non-financial assets | 74,119 | - |
| Other adjustments | (961,622) | 1,130,011 |
| Subtotal of income and expense items | (25,711,403) | (36,338,462) |
| Changes in Operating Assets and Liabilities: | | |
| Net Changes in Operating Assets: | | |
| Decrease (increase) in due from Central Bank and call loans to bank | 20,675,928 | (31,831,123) |
| Increase in financial assets measured at fair value through profit or loss | (26,244,479) | (36,945,722) |
| (Increase) decrease in hedging derivative financial assets | (308,816) | 1,391,960 |
| Decrease in receivables | 27,328,244 | 26,461,541 |
| Increase in loans | (11,996,638) | (149,993,631) |
| (Increase) decrease in available-for-sale financial assets | (183,615,713) | 21,113,275 |
| Decrease (increase) in held-to-maturity financial assets | 23,352,606 | (78,063,611) |
| (Increase) decrease in other financial assets | (334,015) | 1,754,473 |
| Net Changes in Operating Assets | (151,142,883) | (246,112,838) |
| Net Changes in Operating Liabilities: | | |
| Increase (decrease) in deposits from Central Bank and other banks | 14,589,299 | (339,118) |
| (Decrease) increase in financial liabilities measured at fair value through profit or loss | (27,861,193) | 27,329,205 |
| Decrease in hedging derivative financial liabilities | (137,829) | (474,894) |
| Increase (decrease) in payables | 9,613,363 | (6,745,693) |
| Increase in deposits and remittances | 41,262,893 | 263,677,650 |
| Increase (decrease) in other financial liabilities | 560,341 | (4,889,686) |
| (Decrease) increase in employee benefits provision | (199,900) | 505,059 |
| Net Changes in Operating Liabilities | 37,826,974 | 279,062,523 |
| Net Changes in Operating Assets and Liabilities | (113,315,909) | 32,949,685 |
| Sum of Adjustments | (139,027,312) | (3,388,777) |
| Cash (Used in) Provided by Operating Activities | (112,096,846) | 34,360,950 |
| Interest received | 45,865,428 | 46,729,813 |
| Dividend received | 466,574 | 359,996 |
| Interest paid | (15,876,439) | (16,336,981) |
| Income tax paid | (3,813,494) | (3,561,292) |
| Net Cash (Used in) Provided by Operating Activities | (85,454,777) | 61,552,486 |

CTBC BANK CO., LTD.
STATEMENTS OF CASH FLOWS(CONT'D)
For the Years Ended December 31, 2016 and 2015
(Expressed In Thousands of New Taiwan Dollars)

| | For the years ended December 31 | |
|--|--|---------------------|
| | 2016 | 2015 |
| Cash Flows from Investing Activities: | | |
| Disposal of financial assets under equity method | \$ - | 232,833 |
| Purchase of premises and equipment | (2,938,723) | (8,219,747) |
| Disposal of premises and equipment | 11,253 | 1,147,767 |
| Purchase of intangible assets | (462,762) | (205,790) |
| Disposal of foreclosed properties | 20,088 | - |
| Decrease in receivables | 12,979,683 | 813,854 |
| Decrease (increase) in other assets | 13,597,735 | (9,355,655) |
| Disposal of assets held for sale | - | 13,640,153 |
| Net Cash Provided by (Used in) Investing Activities | 23,207,274 | (1,946,585) |
| Cash Flows from Financing Activities: | | |
| Decrease in due to Central Bank and other banks | (457,122) | (339,691) |
| Issuance of financial debentures | - | 17,000,000 |
| Repayments of financial debentures | (43,357,167) | (31,450,500) |
| Decrease in securities sold under repurchase agreements | (4,480,107) | (16,550,328) |
| Increase in financial liabilities designated as at fair value through profit or loss, upon initial recognition | 25,177,620 | 10,057,737 |
| Decrease in payables | (158,228) | (475,647) |
| Increase (decrease) in other liabilities | 138,539 | (527,178) |
| Cash dividends issuance | - | (2,613,728) |
| Capital increase by cash | 3,000,000 | - |
| Net Cash Used in Financing Activities | (20,136,465) | (24,899,335) |
| (Decrease) increase in Cash and Cash Equivalents | (82,383,968) | 34,706,566 |
| Cash and Cash Equivalents, at the Beginning of the Period | 242,427,962 | 207,721,396 |
| Cash and Cash Equivalents, at the End of the Period | \$ 160,043,994 | 242,427,962 |
| Components of cash and cash equivalents: | | |
| Cash and cash equivalents recognized in the balance sheet | \$ 69,446,750 | 72,833,569 |
| Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents | 90,359,744 | 169,594,393 |
| Securities purchased under resell agreements which meet IAS 7 definition of cash and cash equivalents | 237,500 | - |
| Cash and Cash Equivalents, at the End of the Period | \$ 160,043,994 | 242,427,962 |

The accompanying notes are an integral part of the financial reports.

