CTBC BANK

ANNUAL REPORT 2017

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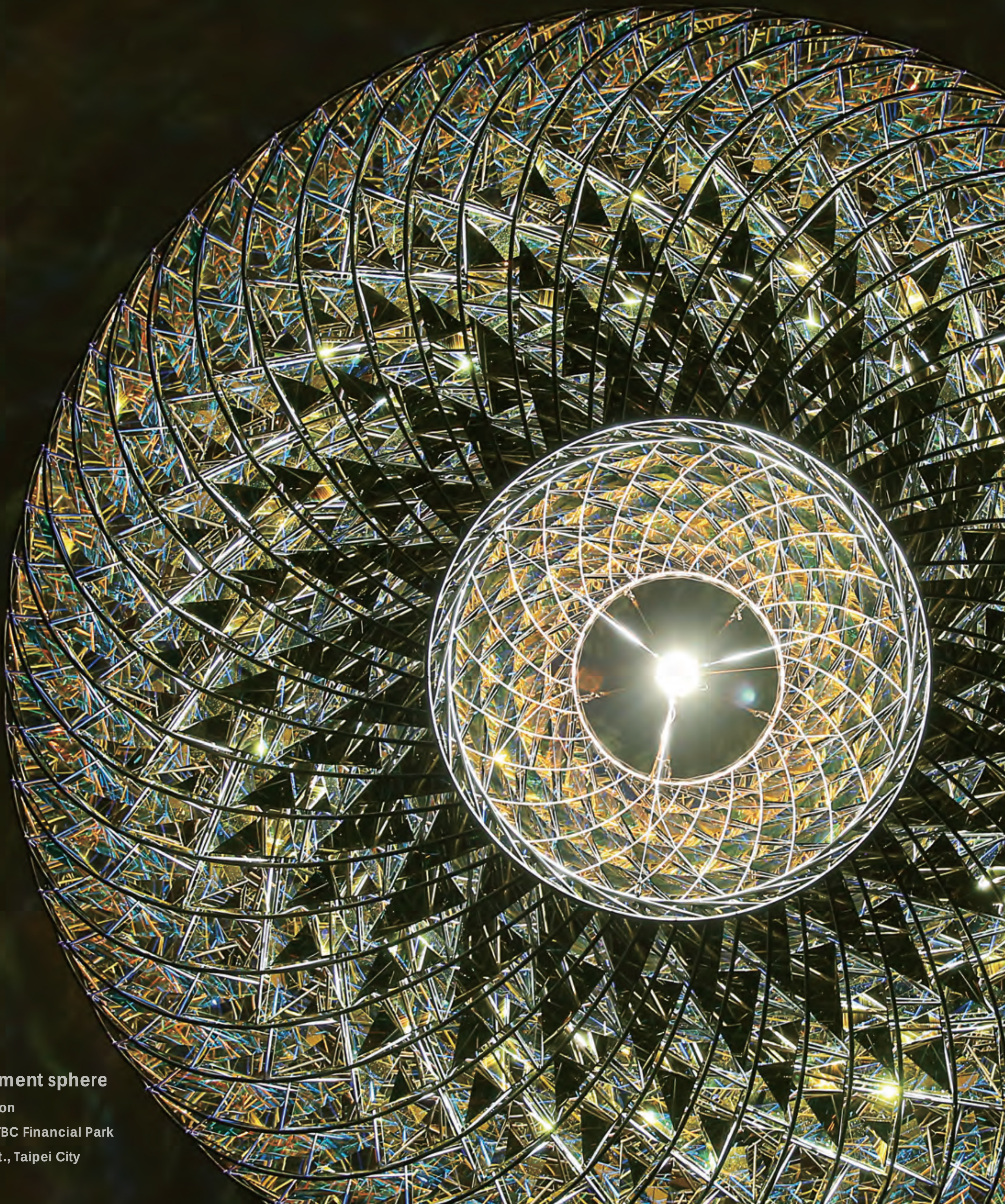
http://www.ctbcbank.com

http://mops.twse.com.tw



Enlightenment sphere

Olafur· Eliasson

Artwork in CTBC Financial Park

Nangang Dist., Taipei City

CTBC Bank Co., Ltd.

Address: No. 166, 168, 170, 186, 188,
Jingmao 2nd Rd., Nangang Dist., Taipei City
115, Taiwan (R.O.C.)
Tel: +886-2-3327-7777
Website: http://www.ctbcbank.com

Spokesman

Name: Daniel Wu* / Ya-Ling Chiu (Acting Spokesman)
Position: Senior Executive Vice President/
Executive Vice President
Tel: +886-2-3327-7777
Email: daniel.ik.wu@ctbcbank.com/
yaling.chiu@ctbcbank.com
*Mr. Wu's role as Spokesman is being filled by Acting Spokesman Ya-Ling Chiu between Dec. 7, 2017 and June 6, 2018.

Acting Spokesman

Name: Ya-Ling Chiu
Position: Executive Vice President
Tel: +886-2-3327-7777
Email: yaling.chiu@ctbcbank.com

Acting Spokesman

Name: Roger Kao
Position: Senior Executive Vice President
Tel: +886-2-3327-7777
Email: roger.kao@ctbcbank.com

Stock Transfer Agency

Agency: Corporate Trust Operation and Service Department, CTBC Bank Co., Ltd.
Address: 5F., No. 83, Sec. 1, Chongqing S. Rd., Zhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)
Tel: +886-2-6636-5566
Website: http://www.ctbcbank.com

Certified Public Accountants

Names: Jeff Chen, Lin Wu
Business Office: 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

S&P Global Ratings

Address: Unit 1, Level 69, International Commerce Centre, 1 Austin Road West Kowloon, Hong Kong
Tel: +852-2532-8003
Website: http://www.standardandpoors.com

Fitch Australia Pty Ltd., Taiwan Branch

Address: Suite 1306, 13F., No. 205, Tun Hwa N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)
Tel: +886-2-8175-7600
Website: http://fitchratings.com/site/taiwan

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.moodys.com

Overseas Exchange for Trading of Company Securities

(None)

For the contact information of our headquarters and various branches in Taiwan and overseas, please refer to page 36

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I. Letter to Shareholders

Dear Shareholders,

Despite the incremental recovery of Taiwan’s economy in 2017, overall growth remained slow,with weak loan demand momentum and narrowing interest margins. However, CTBC Bank Co., Ltd. continued to perform well, delivering outstanding results characterized by growing profits and assets. In addition, continued recognition from domestic and international industry organizations again demonstrated the Bank’s position as Taiwan’s industry leader and Asia’s differentiated player.

2017 Business Strategy Implementation Results

In 2017, CTBC Bank reported an industry-leading NT$93.7 billion of net revenue, NT$36.6 billion of pre-tax income, and NT$30 billion of after-tax income on a consolidated basis, while consolidated after-tax ROE reached 11.27%. Compared with the 2016 fiscal year, CTBC Bank’s consolidated net revenue grew by 7% and consolidated pre-tax income grew by 27%. The pre-tax income budget achieving rate was 113%. Excluding one-off property disposal gains, our consolidated pre-tax income rose by 18% and our budget achieving rate was 105%.

A highlight of our business development in 2017 was the expansion of our mobile payment service offering, namely the LINE Pay co-branded card. Since its release, the card has achieved remarkable results in number of transactions and spending. As to international business, we also deepened our reach in the Southeast Asia market in 2017 as we completed our equity purchase in Thailand’s LH Financial Group, which was unprecedented among Taiwanese banks. The deal has facilitated our building of a more complete financial service network in Southeast Asia.

We continued devoting resources to achieving our goal of comprehensive and convenient digital financial services. To this end, CTBC Bank led Taiwan’s financial industry in introducing first-of-their-kind foreign currency exchange machines. In addition to conventional foreign currency withdrawal functionality, this new generation of automated machine allows two-way cash exchanges between New Taiwan dollars and foreign currencies. Also leveraging the advancement of financial technology, CTBC Bank has launched a new suite of digital financial services covering customer needs ranging from investment and insurance to loans and personal budgeting. In line with this focus, we are also the first financial institution in Taiwan to offer a card-based payment service integrated with the world’s three major mobile payment systems (Apple Pay, Google Pay, and Samsung Pay). These accomplishments all demonstrate CTBC Bank’s commitment to fulfilling customers’ diverse digital financial service needs.

Regarding organizational changes, we realigned our banking operations in July 2017 into three businesses: Institutional and International Banking, Global Capital Market, and Retail Banking.

We elevated our global capital market business to one of the Bank's major areas of operation with the aim of creating a unified global command and ensuring the further expansion of our capital market business. Also in July, with the objective of improving organizational efficiency, we consolidated Payment and Overseas Private Banking into Retail Banking. The merged unit implemented a customer-centric business model, looking beyond our product line in order to emphasize total customer experience. January 2018 also saw another notable organizational development. Reflecting our ambitions for advanced data analytics, we set up a data R&D center under the President that is tasked with Big Data infrastructure development, data-enabled insight delivery, and AI technology implementation.

As a result of our efforts in 2017, CTBC Bank's work across a range of business lines was honored by domestic and international industry organizations and publications. In addition to being the top-rated Taiwanese bank for the fifth consecutive year in Brand Finance's Global 500 survey of the world's top banking brands, we were also named "Taiwan's Best Bank" by both *Asiamoney* and *FinanceAsia*. For our institutional banking services, CTBC Bank was named "Best Commodities Derivatives House, Taiwan" by *The Asset* for the seventh time and "Best Trade Finance Bank in Taiwan" by *Global Finance* for the fifth time. We were also awarded "Best Private Bank in Taiwan" by *Euromoney* for the thirteenth year running and "Best Retail Bank in Taiwan" by *The Asian Banker* for the seventh consecutive year.

In terms of risk management, CTBC Bank continued its rigorous implementation of asset quality and capital adequacy controls. In 2017, our consolidated NPL and coverage ratios were 0.41% and 307%, respectively, indicating good asset quality. Our BIS ratio of 14.47% shows that our capital structure is also sound. Fitch Ratings, citing our steady growth, enhanced capitalization, and strong business position in the domestic market, upgraded its outlook for CTBC Bank from negative to stable. Other major ratings agencies have maintained their stable outlooks on the back of the Bank's adequate risk management, steady profitability scale, and diversified income sources.

Latest Credit Ratings and Effective Dates

Rating type	Rating agency	Credit rating		Outlook	Effective date
		Long-term	Short-term		
International	Fitch	A	F1	Stable	Sept. 20, 2017
	Moody's	A2	Prime-1	Stable	Dec. 9, 2016
	S&P Global Ratings	A	A-1	Stable	Oct. 23, 2017
National	Fitch	AA+(twn)	F1+(twn)	Stable	Sept. 20, 2017
	Taiwan Ratings	twAA+	twA-1+	Stable	Sept. 28, 2017

Impact of the Competitive, Regulatory, and Overall Business Environments

Global trade and investment outperformed expectations in 2017, as strong demand was driven by industrial upgrading as well as innovative technology development. The economies of the United States, eurozone, and Japan gradually emerged from a period of tepid growth. Mainland China, despite continued supply-side structural reforms and financial deleveraging, was still able to grind out economic growth thanks to strong foreign demand, and the economies of Southeast Asia maintained their pace of economic expansion. Meanwhile, as the U.S. Federal Reserve has gradually instituted rate hikes and normalized monetary policy, the European Central Bank and the Bank of Japan have maintained relatively dovish policy stances. Sentiment in the financial market has grown more optimistic. At home, Taiwan benefited from a substantial rebound in exports as economic growth rose to more than 2%. With the economy's limited wage growth, inflation of the New Taiwan dollar, and mild price movements, the Central Bank is continuing to maintain a moderately loose monetary policy. Even with the global economy continuing its gradual recovery, we still face a rising tide of protectionism worldwide, various geopolitical risks, and the tightening of international financial supervision. Indeed, numerous uncertainties dot the landscape and the overall banking business remains cautious.

2018 Business Plan Outline and Future Development Strategy

1. Maintain our leading position in Taiwan and actively expand our overseas operations

   Taiwan's interest spread is forecast to slowly expand in 2018, and lending demand is expected to strengthen. Accordingly, we expect to see the Bank's growth momentum pick up during the year. Overseas markets have benefited from the continued improvement of the global economy and are expected to compare favorably with 2017. Domestically, we will continue refining our business model to better serve our core customers, thus strengthening our industry-leading position. In addition, we are committed to grasping the synergies offered by the integration of our overall retail banking business. Looking abroad, the Bank will take greater initiative in seeking out new opportunities for growth, expanding our customer base by strengthening the advantages of overseas networks and client offering.

2. Accelerate digital development

   CTBC Bank will accelerate the digital transformation of our services in three areas in 2018. First, we will continue to implement digital technology in order to bring customer processes and satisfaction to the next level. Second, we will develop innovative digital services for unique customer experiences. Finally, we will strengthen our data platform and roll out new data-driven services in order to more accurately satisfy customer needs.

3. Ensure effective regulatory compliance

   In 2017, the Bank established the Compliance Division directly under the President. In that same year, we also committed ourselves to enhancing awareness and capabilities across the organization. In 2018, we will further improve the procedures we have in place to ensure effective compliance with emerging regulations. Through collaborative roles, centralized operations, and automated processes, we will promote compliance effectiveness and efficiency while also optimizing customer experience.

Going forward, CTBC Bank will continue to respond promptly to market dynamics, ensure diverse revenue sources and robust asset quality, and accelerate our digital transformation. Meanwhile, we will enforce regulatory compliance and rigorous risk control mechanisms. On this foundation we are creating, CTBC Bank will create sustainable shareholder value and further cement our position as Asia’s leading regional bank.

Chairman:

II. Company Profile

A. Company Overview

1. Date of Establishment: March 14, 1966

2. History of the Bank

   Established in 1966, CTBC Bank has been through three major stages of development. It started life as China Securities Investment Corp. and subsequently became China Investment and Trust Co., Ltd. In 1992, it was restructured into a commercial bank with a business scope covering deposits, loans, guarantees, foreign exchange services, an offshore banking unit, trusts, credit cards, securities, bonds, derivatives, e-banking, and the national lottery agent business. Since May 17, 2002, it has been a subsidiary of CTBC Holding.

   To maximize its operational scope, CTBC Bank merged with Grand Commercial Bank in December 2003, acquired Fengshan Credit Cooperative in July 2004, and successfully bid for Enterprise Bank of Hualien in May 2007. The following year, on April 26, CTBC Bank formally merged with Chinatrust Bills Finance Corp., sharply increasing the group's effectiveness. The transfer of 100% of Tokyo Star Bank Ltd.'s shares was completed in June 2014, making CTBC Bank the sole shareholder in the Japanese institution. In 2017, we completed our 35.6% equity purchase in Thailand's LH Financial Group, becoming the first Taiwanese investment bank to own such a stake in any Thai financial institution.

   CTBC Bank is proud to have offered many innovative services throughout its history, including being the first bank in Taiwan to issue credit cards, to set up a customer service center, and to provide foreign exchange machine in convenience store. With its commitment to excellence and innovation, CTBC Bank continues to lead Taiwan's financial industry. As of 2017, the Bank's consolidated asset size had reached NT$3.76 trillion, making it the largest privately owned bank in Taiwan and giving it the largest brand value in Taiwan's banking industry for the fifth consecutive year.

   To date, CTBC Bank has 150 branches within Taiwan and 110 overseas locations in the U.S., Canada, Japan, Indonesia, the Philippines, India, Thailand, Vietnam, Malaysia, Hong Kong, Singapore, mainland China, Myanmar, and Australia. This vast global presence constitutes the most extensive international network of any financial institution in Taiwan.

   Looking ahead, CTBC Bank will continue to uphold its "We are family" brand spirit and five core values of integrity, innovation, professionalism, teamwork, and caring as well as the corporate mission to "Protect and Build" and its brand values of caring, professional, and trustworthy. It will strive to continue strengthening its corporate governance, fulfilling its corporate social responsibility, and creating value for its customers, employees, and shareholders as well as society as a whole. It aims to become “Taiwan Champion, Asia Leader”—a global brand that boasts industry-leading governance and a financial institution trusted by customers and shareholders alike.

3. Awards

Domestic Awards

- *Reader's Digest* Trusted Brand Awards: Gold Awards for Banking, Wealth Management, Internet Banking, and Credit Cards
- *Wealth Magazine* Wealth Management Survey 2017: Best Domestic Bank for Wealth Management, Best Client Recommendation, and Best Digital Banking
- *Business Next Magazine* Business Innovation Awards 2017: Best Innovation Management - Jury Award, Silver Award; Best Technology Innovation
- *CommonWealth Magazine* Service Survey 2017: Gold Award in Banking Finance Category
- *Business Weekly* Top 100 Taiwan Brands 2016: Excellence in Financial Category
- Bureau of Energy: Best Service in Financial Industry of Top Solar System Awards
- *MANAGERtoday* Brand Asia 2017: No. 1 in the Financial Industry
- *Business Today* Wealth Management Banking Awards 2017: Best Wealth Management, No. 1 in Best Digital Service, No. 1 in Best Perspective Bank, No. 2 in Best Product, No. 2 in Best Wealth Growth, and No. 3 in Best Marketing in Innovation
- Taiwan Insurance Institute, Taiwan Insurance Best Performance Awards 2017: Innovative Customer Service Gold Award, Innovative Education & Training Silver Award, and IT Application Excellence Silver Award
- Sports Administration, Sports Activist Awards Sponsorship Gold Class & Long-Term Sponsorship
- Sports Administration, iSports Certificate of Corporate Wellness
- *Wealth Magazine* Taiwan Financial Awards 2017: Gold Award for Digital Banking, Quality Award for Best Domestic Bank Image, and Best Fintech Banking
- Workforce Development Agency, Train Quali System: Silver Award
- Environmental Protection Administration, Enterprise Environmental Protection Awards: Silver Award
- *Next Magazine* Top Service Awards 2017: No. 2 in Banking Category
- *Business Today* Best Brand Awards 2017: No. 1 in Banking Category
- MAPECT Taiwan M&A Awards 2017: Deal of the Year Award

International Awards

- *Global Finance*
  Best Foreign Exchange Bank in Taiwan
  Best Trade Finance Bank in Taiwan
  Best Sub-Custodian Bank in Taiwan
  Best Securities Services Provider in Taiwan
  Best Corporate/Institutional Digital Bank in Taiwan
- *Brand Finance*
  No. 161 of Top 500 Banking Brands
- *Euromoney*
  Best Private Banking Services Overall in Taiwan
  Best Net-worth-specific Services in Taiwan
  Best Asset Management in Taiwan
  Best Commercial Banking Capabilities in Taiwan
  Best Research and Asset Allocation Advice in Taiwan
  Best Philanthropic Advice in Taiwan
  Best Succession Planning Advice and Trusts in Taiwan
  Best Equity Finance in Taiwan
- *Retail Banker International*
  Excellence in Internet Banking – Overall
  Highly Commended: Innovation in Service Delivery – ATMs
  Highly Commended: Excellence in Loan Origination
  Highly Commended: Excellence in Customer Centricity
  Highly Commended: Best Tech Implementation - Front End
  Highly Commended: Best Tech Implementation - Back Office
- *The Asset*
  Best Retail ATM Experience, Taiwan
  Most Innovative ATM Project, Taiwan
  Most Innovative Social Media Project, Taiwan
  Most Innovative Risk Management Project, Taiwan
  Best Service Provider - Trade Finance, Taiwan
  Best Service Provider - Risk Management, Taiwan
  Best Custodian Bank in Taiwan
  Best Derivatives House of the Year, Taiwan
  Best Flow Derivatives House, Taiwan
  Best Rates Derivatives, Taiwan
  Best FX Derivatives, Taiwan
  Best Commodities Derivatives, Taiwan
  Best Debt Adviser in Taiwan
  Best Loan Adviser in Taiwan

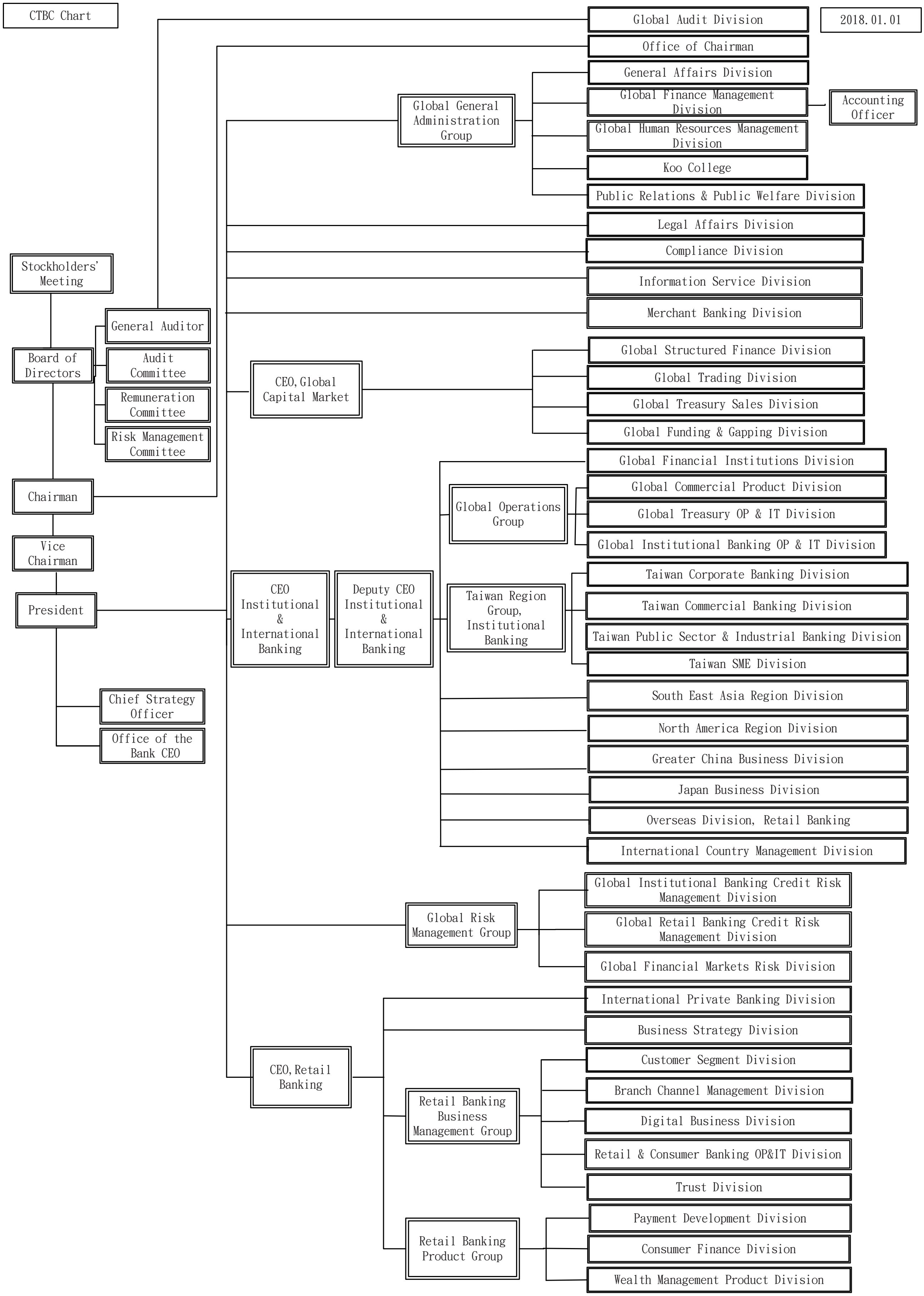
Best M&A/Best Acquisition Financing, Indonesia (for Star Energy consortium's acquisition of Chevron's geothermal and power business in Indonesia and the Philippines, for which CTBC Bank acted as arranger)
Best Syndicated Loan, Vietnam (for Petro Vietnam Gas' US$210 million syndicated term loan facility, for which CTBC Bank acted as lead arranger)
Best Share Financing, Vietnam (for Masan Nutri-Science Co.'s US$110 million senior loan facility, for which CTBC Bank acted as joint mandated lead arranger and bookrunner)

- IDC Financial Insights
  Asia/Pacific's Leader in Big Data Strategy
- *The Asian Banker*
  Wealth Management of the Year
  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
  Best Corporate Trade Finance Deal in Taiwan
  Credit Risk Technology Implementation of the Year in Taiwan
  Sub-Custodian Bank of the Year in Taiwan
  No. 62 of Top 500 Banks 2017
- *Private Banker International*
  Highly Commended: Best Private Bank in Taiwan
- *Global Business Outlook*
  Best Private Bank Taiwan 2017
- *International Finance Magazine*
  Best Retail Bank in Taiwan
- *Asiamoney*
  Best Bank in Taiwan
  Best Bank for Corporate Social Responsibility
  Best Domestic Bank
- *Timetric*
  Best Data Analytics Program
  Best New Product, Service or Innovation Launch
  Highly Commended: Best Tech Implementation – Front End
  Highly Commended: Best Tech Implementation – Back Office
- *FinanceAsia*
  Best Bank in Taiwan
  Best Private Bank in Taiwan

- *Asian Banking & Finance*
  Taiwan Domestic Foreign Exchange Bank of the Year
- Enterprise Asia
  Green Leadership Category
- *Asia Risk*
  House of the Year
- *IFR Asia*
  Taiwan Loan House
- *The Banker*
  No. 155 of Top 1,000 World Banks 2017
- World Branding Forum
  Brand of the Year – National Tier
- *The European Magazine*
  Banking CEO of the Year 2017
  Best Bank for Corporate Governance 2017
- eASIAAwards 2017
  Data Driven Value Creation

B. The Organization

1. CTBC Chart



2. Directors and Supervisors

Title	Name	Date of Assignment	Office Term	Significant Experience	Education
Chairman	Chao-Chin Tung	Dec. 8, 2016	3	Director, CTBC Financial Holding Co., Ltd. Director, The Tokyo Star Bank, Ltd. Director, CTBC Life Insurance Co., Ltd. Chairman, CTBC Venture Capital Co., Ltd. Chairman, CTBC Asset Management Co., Ltd. Chairman, CTBC Capital Corp. Chairman, CTBC Bank Corp. (USA)	Masters in Materials Science, University of Rochester, New York, USA
Vice Chairman	Ming-Shieh Li	Dec. 8, 2016	3	Chairman, CTBC Capital Corp. Chairman, CTBC Bank Corp. (USA) Director, LH Financial Group Public Company Limited Director, Land and Houses Bank Public Company Limited Director, China Guangfa Bank Co., Ltd. Chairman, Citibank Taiwan Ltd.	Department of Economics, National Taiwan University
Director	Wen-Long Yen	Dec. 8, 2016	3	Chairman, CTBC Financial Holding Co., Ltd. Chairman, Kainan Vocational High School Chairman, Kainan University Director, Wei Kuo Construction Co., Ltd. Director, Wei Fu Investment Co., Ltd.	Department of Economics, Soochow University
Director	Thomas K.S. Chen	Dec. 8, 2016	3	Director, CTBC Financial Holding Co., Ltd. Chairman, CTBC Investments Co., Ltd. Chairman, CTBC Asset Management Co., Ltd. Director, Taipei Financial Center Corp. Chairman, CTBC Bank Corp. (USA) Chief Secretary, CTBC Financial Holding Co., Ltd.	Bachelors, Department of Public Finance and Taxation, National Chengchi University
Director	H. Steve Hsieh	Dec. 8, 2016	3	Chairman, Taiwan Lottery Corp. Secretary-General, Executive Yuan, R.O.C. (Taiwan)	Ph.D. in Biochemical Nutrition, University of Wisconsin, USA
Director	Su-Kuo Huang	March 28, 2017	3	Chairman, Taiwan Life Insurance Co., Ltd. Director, CTBC Securities Co., Ltd. Director, The Tokyo Star Bank,, 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. Director, TLG Insurance Co., Ltd. President, PT Bank CTBC Indonesia	Department of International Business, National Chengchi University

Title	Name	Date of Assignment	Office Term	Significant Experience	Education
Director	Yen-Pao Chen	Dec. 8, 2016	3	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, USA
Director	Chun-Te Chiang			Director, ISTRA Corp. Director, Long Chen Paper Co., Ltd. System Analyst, Barclays Bank, South Africa	Bachelor of Commerce, University of the Witwatersrand, Johannesburg, South Africa
Independent Director	Chung-Yu Wang			Independent Director, CTBC Financial Holding Co., Ltd. Chairman, China Steel Corp. Independent Director, Chunghwa Telecom Co., Ltd. Legislator, R.O.C. (Taiwan)	Honorary Ph.D., Chung Yuan Christian University
Independent Director	Wen-Chih Lee			Independent Director, CTBC Financial Holding Co., Ltd. Professor, Department of Wealth and Taxation Management, National Kaohsiung University of Science and Technology 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, CTBC Securities Co., Ltd. Professor, Department of Finance, National Chengchi University Independent Director, CTBC Financial Holding Co., Ltd. EMBA Executive Officer, National Chengchi University Director, Central Deposit Insurance Corp.	Ph.D. in Finance, Louisiana State University, USA

Note: All Directors and Independent Directors are legal representatives of CTBC Financial Holding Co., Ltd., which owns 14,068,571,872 shares and has 100% ownership of the company.

3. Significant Shareholders

Apr. 17, 2018

Institutional Shareholder	Largest Shareholders
CTBC Financial Holding Co., Ltd.	1. Yi Kao Investment Co., Ltd. (2.91%) 2. China Life Insurance Co., Ltd. (2.67%) 3. Cathay Life Insurance Co., Ltd. (2.46%) 4. Government of Singapore (1.65%) 5. CTBC Bank Trust Account for CTBC Financial Holding Employee Welfare Savings Committee (1.65%) 6. Bank of Taiwan Co., Ltd. (1.62%) 7. Chuan Wei Investment Co., Ltd. (1.61%) 8. Vanguard Emerging Markets Stock Index Fund, A Series of Vanguard International Equity Index Funds (1.55%) 9. Fubon Life Insurance Co., Ltd. (1.54%) 10. Norges Bank – internal – NBIM PF EQ INTERNAL CFD (1.37%)

4. Major Managers

Name	Title	Education	Significant Experience
James Chen	President and CEO, Global Institutional Banking	MBA, The City University of New York, USA	Director, CTBC Bank Co., Ltd.
Albert Lee	Senior Executive Vice President	Master of Comparative Law, University of Illinois at Urbana-Champaign, USA	Chairman, Threadneedle Investments Hong Kong
James Y.G. Chen	Senior Executive Vice President	Master of Political Economy, Nankai University, China	President, Chang Hwa Bank
Larry Hsu	Senior Executive Vice President	Bachelor of Business Administration, National Taiwan University	EVP, CTBC Bank Co., Ltd.
Nick Y Huang	Senior Executive Vice President	MBA, National Taiwan University	Managing Director, JPMorgan China
Roger Kao	Senior Executive Vice President	Master of Science in Broadcast Journalism, Boston University, USA	EVP, CTBC Bank Co., Ltd.
Alex Chen	Executive Vice President	Bachelor of Economics, Chinese Culture University	SVP, CTBC Bank Co., Ltd.
Alex Lu	Executive Vice President	Master of Laws, Harvard University, USA	SVP, CTBC Bank Co., Ltd.
Amy HC Lin	Executive Vice President	Bachelor of Banking, National Chengchi University	SVP, CTBC Bank Co., Ltd.
Amy Yang	Executive Vice President	EMBA, National Taiwan University	SVP, CTBC Bank Co., Ltd.
C.C. Huang	Executive Vice President	MBA, Indiana University at Bloomington, USA	EVP, ABN AMRO Bank
CC Hong	Executive Vice President	International Trade, Chihlee College of Business	SVP, CTBC Bank Co., Ltd.
Cliff Shen	Executive Vice President	Bachelor of Business Administration, National Cheng Kung University	SVP, CTBC Bank Co., Ltd.

Name	Title	Education	Significant Experience
Derek Lo	Executive Vice President	MBA, Madonna University, USA	SVP, CTBC Bank Co., Ltd.
Eric Hsin	Executive Vice President	Executive MS in Finance, The City University of New York, USA	SVP, CTBC Bank Co., Ltd.
Evan Chang	Executive Vice President	Bachelor of Accounting, Tunghai University	SVP, CTBC Bank Co., Ltd.
Frank Shih	Executive Vice President	MBA, University of Texas at Austin, USA	SVP, CTBC Bank Co., Ltd.
Friedman Wang	Executive Vice President	MIBA, National Taiwan University	SVP, CTBC Bank Co., Ltd.
Jack CP Wang	Executive Vice President	MBA, The University of Western Ontario, Canada	Vice President, Citibank
Jason Chen	Executive Vice President	Bachelor of Business Administration, Feng Chia University	SVP, CTBC Bank Co., Ltd.
Matthew Liaw	Executive Vice President	MBA, University of Wisconsin at Madison, USA	SVP, CTBC Bank Co., Ltd.
Max Lin	Executive Vice President	MBA, University of Illinois at Urbana-Champaign, USA	Director, Deutsche Bank
Mingjohn Lee	Executive Vice President	MBA, New York University, USA	SVP, CTBC Bank Co., Ltd.
Noor Menai	Executive Vice President	MBA, University of Rochester, USA	CEO, Charles Schwab Bank
Openmind Yeh	Executive Vice President	Bachelor of Economics, Tunghai University	SVP, CTBC Bank Co., Ltd.
Peter Liu	Executive Vice President	MBA, National Taiwan University of Science and Technology	SVP, CTBC Bank Co., Ltd.
Tony Yang	Executive Vice President	MIBA, United States International University, USA	SVP, CTBC Bank Co., Ltd.
Wayne Hsu	Executive Vice President	MBA, Michigan State University, USA	Managing Director, Citibank Taiwan
Weitzu Chao	Executive Vice President	Master of Statistics, National Chengchi University	SVP, CTBC Bank Co., Ltd.
William Chu	Executive Vice President	Bachelor of Marine Transportation, National Chiao Tung University	SVP, CTBC Bank Co., Ltd.
Yaling Chiu	Executive Vice President	MBA, Minnesota-Twin Cities University, USA	SVP, CTBC Bank Co., Ltd.
Anderson Chen	Senior Vice President	Bachelor of Business Administration, Soochow University	VP, CTBC Bank Co., Ltd.
Austin Chiang	Senior Vice President	MBA, National Taiwan University	Principal, Boston Consulting Group
Boshan Hsu	Senior Vice President	MBA, Indiana University Bloomington, USA	VP, CTBC Bank Co., Ltd.
Charleen Sung	Senior Vice President	MBA, New York University, USA	VP, CTBC Bank Co., Ltd.
Eric Chu	Senior Vice President	MBA, Chung Yuan Christian University	VP, CTBC Bank Co., Ltd.
Eric Kw Wu	Senior Vice President	EMBA, National Taiwan University	VP, CTBC Bank Co., Ltd.
Frank Hsu	Senior Vice President	Master of International Business, National Chengchi University	VP, CTBC Bank Co., Ltd.
James Yu	Senior Vice President	Master of Economics, National Chung Hsing University	VP, CTBC Bank Co., Ltd.

Name	Title	Education	Significant Experience
Jeffrey Hsieh	Senior Vice President	Master of Agricultural Economics, National Taiwan University	VP, CTBC Bank Co., Ltd.
Jerry Shaw	Senior Vice President	Bachelor of Business Administration, Tamkang University	VP, CTBC Bank Co., Ltd.
John Yang	Senior Vice President	MBA, University of Texas at Arlington, USA	VP, CTBC Bank Co., Ltd.
Jonathan Hsieh	Senior Vice President	Master of Economics, National Chung Hsing University	VP, CTBC Bank Co., Ltd.
Li Juan	Senior Vice President	MBA, Syracuse University, USA	VP, CTBC Bank Co., Ltd.
Morris Kao	Senior Vice President	Bachelor of Accounting, Fu Jen Catholic University	VP, CTBC Bank Co., Ltd.
Pauline Kao	Senior Vice President	MBA, University of Pennsylvania, USA	Compliance Senior Manager, American Express Co.
Peter Hsiao	Senior Vice President	MBA, National Taiwan University	VP, CTBC Bank Co., Ltd.
Retinna Sung	Senior Vice President	Bachelor of Law, National Chung Hsing University	VP, CTBC Bank Co., Ltd.
Richie Chen	Senior Vice President	Secretarial Science, Tamsui Institute of Business Administration	VP, CTBC Bank Co., Ltd.
Sean Tang	Senior Vice President	Master of Laws, National Chengchi University	Counselor and Associate Partner, Lee and Li Attorneys-at-Law
Shirley Yang	Senior Vice President	Master of Arts in Advertising, Michigan State University, USA	VP, CTBC Bank Co., Ltd.
Steve Peng	Senior Vice President	Bachelor of Cooperative Economics, Feng Chia University	VP, CTBC Bank Co., Ltd.
Sting Yang	Senior Vice President	Bachelor of Accounting, Fu Jen Catholic University	VP, CTBC Bank Co., Ltd.
Vivian Ho	Senior Vice President	EMBA, National Sun Yat-sen University	VP, CTBC Bank Co., Ltd.
Wisely Liu	Senior Vice President	MBA, National Taiwan University	VP, CTBC Bank Co., Ltd.
Ys Lin	Senior Vice President	Bachelor of Mass Communication, Tamkang University	VP, CTBC Bank Co., Ltd.
Bach Chen	Vice President	Bachelor of Mechanical Engineering, National Taiwan University	Manager, CTBC Bank Co., Ltd.
Daphne Chang	Vice President	Master of Arts in Economics, University of Michigan, USA	Manager, CTBC Bank Co., Ltd.
Norman Sung	Vice President	Bachelor of International Business, Chung Yuan Christian University	Manager, CTBC Bank Co., Ltd.
Stan Wu	Vice President	MBA, National Taiwan University	Manager, CTBC Bank Co., Ltd.
I Ching Lin	Manager	Bachelor of Economics, Fu Jen Catholic University	Assistant Manager, CTBC Bank Co., Ltd.
Julia Chan	Manager	Bachelor of Accounting, Tamkang University	Assistant Manager, CTBC Bank Co., Ltd.
Norman Wu	Manager	Master of Finance, Syracuse University, USA	Assistant Manager, CTBC Bank Co., Ltd.

III. Business Overview

A. Business Performance

1. Scope of Business

(1) Institutional Banking and Overseas Business

a. Commercial Banking

We provide customers with comprehensive and specialized financial services, including loans, trade financing, cash management, corporate trusts, and proxy services.

b. International Business

We provide clients cross-border financial services by leveraging CTBC's global networks, with a focus on customers in Greater China, Southeast Asia, North America, and Japan. Regarding overseas retail banking, we provide target customers with various and niche financial products and services based on customers' needs and development stage as well as the demand of specific markets.

c. Capital Markets

We provide tailored solutions to meet clients' financing needs. These solutions include syndicated lending, structured finance, financial advisory, and fixed-income securities underwriting services. In addition to managing our own market risk exposure and liquidity position, we offer a wide range of services to meet institutional clients' hedging and financial needs. These services include foreign exchange, derivative, and structural investment products.

(2) Retail Banking

a. Wealth Management

We provide target customer groups with financial planning, asset allocation planning, and advisory services as well as assistance in the acquisition of a variety of financial products.

b. Loan Services

We provide individuals with diverse loan services, such as residential mortgage services (including home mortgages, refinancing, installment loans, policy-based loans, and financial planning mortgages) and personal loans (including unsecured term loans and revolving loans).

c. Payment Services

We provide payment solution services, such as issuing and processing services, for credit as well as debit cards. CTBC Bank also provides digital and mobile payment solutions, including digital wallets as well as mechanisms for third-party payments, bill payments, and cross-border transactions.

Revenue Breakdown (Note 1)

Unit: NT$ million

Revenue Source	Amount	Percentage
Institutional banking and overseas business	46,390	50%
Retail banking	41,335	44%
Other	5,958	6%
Total	93,683	100%

Note 1: Consolidated basis

2. Business Discussion

(1) Institutional Banking and Overseas Business

CTBC Bank's institutional banking business continues to lead the sector in Taiwan. Amid financial liberalization and globalization, we have maintained expansion 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 the 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 Transaction Bank in Taiwan, Best Foreign Exchange Bank in Taiwan, Best 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. <u>Transaction Banking</u>

With our professional product offerings and strong sales capabilities, the market share of CTBC Bank in total deposit volume and foreign currency deposit volume continued to increase in 2017, reaching 6.3% and 8.6%, respectively. We maintained our leading position in deposit volume, especially in foreign currency deposits, in which we rank No. 2 among all banks in Taiwan. Furthermore, in the factoring market, the Bank has remained among the top three players countrywide over past five years.

With the objective of providing our corporate clients a differentiated treasury management experience, CTBC Bank is continuing to develop digitized transaction services across markets. We were the first bank in Taiwan to receive certification for SWIFT's Global Payment Innovative (GPI). As a result, we are now able to provide customers with end-to-end tracking of their cross-border payments in real-time.

Leveraging CTBC's ubiquitous ATMs, we launched electronic Direct Debit Authorization, which largely reduces customers' payment authorization time. In Hong Kong, we launched Mobile Push Authentication Security Service to provide our corporate customers with an easier and securer means of authorizing payment transactions. In China and India, we have continued to strengthen our payment infrastructure in order to increase the efficiency and quality of our payment process.

b. <u>Custody/Corporate Trust Business</u>

Our corporate trust business continued to grow in 2017. CTBC Bank's assets under custody from all segments reached NT$2.60 trillion (US$88 billion) at the end of 2017. The revenue of our corporate trust business showed solid and consistent performance in 2017, reaching a record high of NT$1.18 billion (US$40 million). In terms of asset size, the Bank was still ranked No. 1 in the transfer agent and employee benefit business.

c. <u>Syndicated Loans</u>

CTBC Bank is a leading arranger of loan syndication in Asia, with an extensive presence in the region as well as a strong commitment to its home market. The Bank has particularly good origination and structuring capabilities, providing innovative solutions and extensive distribution channels. We specialize in financing solutions requiring higher levels of sectorial knowledge, such as aviation, shipping, real estate, and project finance. The Bank has developed extensive networking and firm partnerships with major players in the region and with its major clients.

d. <u>Fixed Income Underwriting</u>

As one of the leading bond underwriters in Taiwan, CTBC has participated in numerous high-profile transactions since the inception of the country's international bond market. The Bank set up its Hong Kong Debt Capital Market (DCM) team in 2017 to expand its bond underwriting business to the city and further into the region. With our strengthened DCM franchise together with our loan syndication business, we will be able to better serve our clients across Asia with comprehensive corporate finance solutions.

e. <u>Treasury and Derivatives</u>

CTBC Bank provides a wide range of tailored financial solutions to our institutional clients globally. In addition to managing the Bank's market risk exposure and liquidity position, we provide risk management solutions for foreign exchange, rate, commodity, debt capital market, and derivative services. In 2017, in response to the changing market and regulatory environment, we continued to strengthen our risk management for transacting derivatives via enhancing our variance margin mechanism with banks and non-bank institutional customers. We continually enhance product types, pricing capabilities, and warehousing risk appetite with the strong support from the headquarters. In addition to maintaining success in our home market, we have also established more dealing rooms across the region than any of our Taiwanese banking peers.

(2) Retail Banking

CTBC Bank remains the pioneer in retail banking service innovation. In addition to enjoying a significant market share, we received 42 domestic and international awards in 2017, including our 13th consecutive “Best Private Bank in Taiwan” prize from *Euromoney* and 7th consecutive “Best Retail Bank in Taiwan” award from *The Asian Banker*.

With the Bank’s competitive advantage in brand and comprehensive services, our number of retail customers as well as assets under management have shown strong growth over the past few years, with compound annual growth of 4% and 9%, respectively, from 2015.

a. Wealth Management

With our open platform strategy, CTBC Bank is able to provide comprehensive and innovative wealth management services and products to meet diverse customer needs. Our diversified wealth management product lines have contributed to the Bank’s leading position in Taiwan’s wealth management market and differentiated proposition in international private banking business.

b. Loan Services

CTBC Bank has been dedicated to providing complete financing solutions with multi-channel customer services, and also continues to maintain superior asset quality and profitability. Therefore, CTBC Bank has enjoyed a leadership position in personal loan and non-government-affiliated mortgage market. Recently, the Bank has also established an award-winning digital lending platform that creates a whole new customer experience by radically simplifying the loan application process and reducing turnaround time.

c. Credit Card and Payment Services

At the end of 2016, CTBC launched the LINE Pay co-branded card. Working in partnership with LINE, Asia’s dominant instant-messaging platform, we have successfully provided customers with an innovative mobile payment experience.

d. Internet and Mobile Banking

Our internet and mobile banking services continue to be the most popular in the country thanks to their continual improvement, earning numerous awards in the process. The numbers of our internet and mobile banking users now exceed 3.5 million and 1.8 million, respectively. These figures continue to grow as the Bank consistently revamps the platforms’ designs and launches new industry-leading features that make customers’ everyday lives easier.

e. ATM Services

CTBC Bank has the largest ATM network in Taiwan. With 5,500 machines nationwide, the Bank tops the list in terms of interbank withdrawal transactions, accounting for approximately 35% of market share. We are also constantly innovating ATM functionality, such as with the addition of biometric authentication.

B. Employees

	As of Dec. 31, 2017		As of Dec. 31, 2016	
Number of Employees	11,232		11,060	
Average Age (Years)	38.1		37.8	
Average Tenure at CTBC (Years)	9.5		9.2	
Education	Employee Count	Percentage	Employee Count	Percentage
Graduate School or Higher	2,542	22.7%	2,431	22.0%
University/College	7,950	70.8%	7,788	70.4%
Senior High School	691	6.1%	783	7.1%
Below Senior High School	49	0.4%	58	0.5%

C. Social Responsibility

As an organization committed to sustainable business development, CTBC Holding has long worked to promote corporate social responsibility and strengthen its corporate governance, environmental protection endeavors, and social participation. Eleven years ago, in 2007, CTBC Holding published the Taiwanese financial industry's CSR report. In another industry first, we received ISO 50001 Energy Management certification in 2012. In 2016, CTBC became an industry leader by adopting the principles of integrated reporting and meeting the GRI G4 International Reporting Guidelines. In 2017, we responded to the United Nations' Sustainable Development Goals, keeping pace with the global community. Over the years, the Group's long-term CSR efforts have been widely and warmly recognized by professional organizations in Taiwan and abroad.

In 2017 alone, CTBC was chosen for the first time for inclusion in the Dow Jones Sustainability Indices' World Index and yet again selected as a constituent stock for the Emerging Markets Index. In addition, we were included in Morgan Stanley Capital International's ESG Leaders Indexes and in the FTSE4Good Emerging Index, while also receiving a Leadership A- rating from CDP, making it the top performer in Taiwan's financial sector for the second consecutive year and demonstrating the tangible results delivered by our implementation of CSR, corporate governance, and sustainable development. Furthermore, we are the only Taiwanese financial institution to be ranked among the top 500 global banking brands for five years running by British-based brand appraisal agency Brand Finance. Finally, in the 2017 Best Taiwan Global Brands survey conducted jointly by the Ministry of Economic Affairs' Industrial Development Bureau and brand consultancy Interbrand, CTBC was for the second consecutive time ranked as the most valuable brand in Taiwan's financial sector. The brand value supremacy of our Group and Bank are true points of pride.

1. Sustainable Governance

   To strengthen corporate governance and enhance business performance, in 2006 we 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 have 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 the 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, the Audit Committee, Remuneration Committee, and Risk Management Committee were established 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.

With the reappointment of the Board in 2016, we became first financial institution in Taiwan to have independent directors take up more than half the seats on its board. The four independent directors on the seven-member board established a new model of corporate governance among financial holding companies. By leveraging their diverse professional experience and independent status, these independent directors will continue supervising the management team during major decisions and support the company to further 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 authorized to develop the standards and qualifications required of directors and supervisors. It also evaluates the performance of the Board and devises training plans for directors.

In 2017, we strengthened our information disclosure procedures and reviewed our corporate governance-related regulations as part of our continual efforts to ensure international-standard corporate governance.

To take on more social responsibility, we have 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 Holding Corporate Sustainability Committee, which is chaired by the President of CTBC Holding. The presidents of CTBC Holding 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 our commitment to public welfare. Our devotion to social welfare over the decades was inspired by a simple love of children. Thirty-three 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. As of 2017, it has raised donations exceeding NT$1.8 billion that have been used to help approximately 400,000 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 Taiwan Dream Project. The initiative has so far helped build 20 Taiwan Dream Project sites for the children of remote mountainous areas and 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. In 2017, in response to international trends and to maximize the effect of corporate resources invested in social welfare, we introduced the social return on investment (SROI) measurement mechanism, applying it on the Group's first Taiwan Dream Project site. This SROI evaluation, conducted on the Dahu Community of Bitou Township in Changhua County, found that every

NT$1 invested generated NT$4.26 in social value. Also in 2017, the Taiwan Dream Project was recognized by Enterprise Asia's Asia Responsible Entrepreneurship Awards.

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, we have 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. In addition, to raise children's awareness of the dangers of drugs in a unique manner that breaks free of conventional, low-impact methods, it has utilized 3D interactive technology and documentaries as part of countrywide special exhibitions, reaching more than 130,000 people in the process. In 2017, we collaborated with the Ministry of Justice's Agency of Corrections to launch the enhancement program of child-raising in correctional institutions, working to improve the facilities and the conditions in which incarcerated mothers raise their children and providing early childhood courses on drug prevention. CTBC has participated proactively in drug prevention education and in 2017 was recognized as the exemplary anti-drug organization by the Executive Yuan for its exemplary service in combating drug abuse.

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 CTBC Caring Shop 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 211 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 CTBC Youth Baseball Project, which has so far provided funding for 24 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 Business School. The college, which offers grants and scholarships to disadvantaged students who display outstanding academic performance, has achieved a 100% student enrollment rate in the three years since its establishment. The Ministry of Education has praised the school as a new model of corporate philanthropy. In 2017, CTBC established the Southern Taiwan's first English-language experimental high school, CTBC International Academy, providing an alternative to the traditional approach to education.

We have long dedicated a great deal of effort to supporting the arts, having founded the CTBC Foundation for Arts and Culture in 1996. Since then, we have been recognized 12 times by the Art and Business Awards. The CTBC Arts Festival was launched in 2015 with the mission of bringing cultural arts to every corner of Taiwan. In 2017, for the first time, an outdoor charity event was held, with the venue in Taichung City attracting an audience of more than 10,000 people. The Foundation has also launched the LOVE & ARTS for Dreams Initiatives, bringing instructors to rural areas to teach children various forms of art—at the same time teaching them not only to dare to dream but to chase those dreams and make them a reality. Our support for artistic and cultural events enables people to experience the arts in more diverse forms than they otherwise could. Such sponsorship in 2017 included an exhibition Musée d'Orsay: The Aesthetic Worlds of the 19th Century and The World of Studio Ghibils Animation Exhibition.

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 nearly 2,300 volunteers providing assistance such as tutoring, financial management, American English classes, and anti-drug education. These volunteers have already worked a total of more than 140,000 hours. CTBC not only encourages its employees to extend their love to others, but it also cares for them like 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 2017, human rights issues were covered in new employee training. That women fill nearly 60% of managerial positions in CTBC and that the rate of women who receive the “BEST Employee” title exceeds 60% demonstrate 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 as well as our 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 five categories of charitable endeavors: social welfare, physical education, drug awareness, education, and culture and the arts. CTBC devotes 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 Equator 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. CTBC Bank adhered to the Equator Principles in 2017 and is expected to formally sign on before the end of 2018. It will also finalize the pricing of the first green bonds issued in the Taiwan market and raise funds for a green investment program. The program will address environmental protection, climate change, and green energy, and provide support to small and medium-sized businesses investing in green energy-related infrastructure.

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 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. In 2017, all 151 of CTBC Bank's branches in Taiwan received ISO 50001 Energy Management certification, ISO 14001 Environment Management certification, and ISO 14064-1 Greenhouse Gas Emissions Reporting certification, while Taiwan Life Insurance earned ISO 14064-1 Greenhouse Gas Emissions Reporting certification. Also in 2017, we received for the second consecutive year the Leadership A-recognition from CDP—the best result in Taiwan's financial industry. That same year, CTBC was honored with the R.O.C. Enterprise Environmental Protection Silver Award from the Executive Yuan's Environmental Protection Administration, the Outstanding Energy Saving Performance Award from the Ministry of Economic Affairs, and the Green Leadership Award from the Asia Responsible Entrepreneurship Awards. In addition, we became the first financial institution in Taiwan to obtain renewable energy certification from the Ministry of Economic Affairs.

In the 51 years since the founding of CTBC, the brand of the Group has been our most important intangible asset. In 2017, CTBC won 176 top domestic and foreign awards recognizing the Group's efforts in business performance, brand image, CSR, and sustainable performance. Going forward, we will continue to integrate sustainable development as well as environmental, social, and governance issues into our policies and development programs. We will also continue to uphold our "We are family" brand spirit, "protect and build" corporate mission, and "caring, professional, and trustworthy" brand values 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.

IV. Dividend Policy and Earnings Distribution

A. Dividend Policy and Execution Status

1. Dividend Policy:

   As a subsidiary of CTBC Financial Holding Co., Ltd. and in order to satisfy the fund requirements of the parent company, if the Bank reaches a reasonable BIS ratio, cash dividends and bonuses for common shares shall be prioritized and maintained at a stable level every year.

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

   Distribution Terms, Time, and Amount: If there are earnings in the financial statement, the Bank shall first set aside funds for taxes, to be adjusted according to the principles of financial accounting, and set aside funds for losses, if any. It shall then set aside 30% of the earnings as a statutory surplus reserve and subsequently, per applicable laws and regulations, set aside or reverse a special reserve. The means 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 total capital amount, the distributed cash dividends shall not exceed 15% of the total capital. If the Bank's statutory surplus reserve reaches the total capital stipulated in Paragraph 2 of Article 50 of the Banking Act of The Republic of China regulated by the authorities and if it has proposed a statutory surplus reserve according to the Company Act, it will not be limited by the statutory surplus reserve or the cash earning distribution ceiling.

2. The Board has approved the earnings appropriation proposal for 2017. It is proposed that a total of NT$17,462,052 thousand from the retained earnings of the year will be distributed in cash according to the record shown in the shareholder book on the distribution record date (Record Date). The total common stock dividend is NT$1.24121 per share in cash. In the event of a capital increase or decrease, which affects the number of outstanding shares on the Record Date, the Chairman shall be authorized to handle relevant matters.

B. Influence of Dividend Allocation on Business Performance and EPS: No financial forecast was announced for the Bank in 2018; therefore, no disclosure of such information is applicable.

C. Information Relating to the 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 bonus allocation is set at 0.05% of the Bank's pretax income before the deduction of employee compensation at the end of the accounting period, as per the employee compensation policy in the Articles of Incorporation. The compensation of the Board of Directors and Supervisors is 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 any discrepancy between the actual distributed amount and the estimated figure for the current period:

   The fair value of employee compensation is estimated as current-period expenses based on the Bank's pretax income before the deduction of employee compensation at the end of the accounting period multiplied by the percentage set by the Bank's Articles of Incorporation. If the actual allocation amount pursuant to a resolution of the Bank's Board of Directors is later found to vary from the estimated number, the difference is recognized as the profit or loss of the next year.

3. Information on any approval by the Board of Directors regarding the distribution of compensation:

   (1) The amount of any employee compensation distributed in cash or stocks and compensation for directors and supervisors, and, if there is any discrepancy between this amount and the estimated figure for the fiscal year for which these expenses are recognized, the discrepancy, its cause, and the response:

   a. Compensation: The cash compensation of employees was NT$17,052 thousand.
   b. Discrepancy: The accrued expenses of employee compensation totaled NT$17,083 thousand; the discrepancy between the actual allocation amount and the accrued expense amount for employee compensation was NT$31 thousand.
   c. Reason: The monthly closing amount of net income before tax, which was used to estimate the accrued expenses, differed from the actual closing amount of net income before tax at the end of the accounting period.
   d. Response: A change in accounting estimates will be implemented in 2018.

   (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 2016 (including 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, the discrepancy, its cause, and the response:

	2016			
	Distributed With Resolution From Annual General Meeting	Recognized Expense	Difference*	Reason
Distribution status: A. Employee compensation distributed in cash	NT$13,472 thousand	NT$13,498 thousand	NT$26 thousand	The difference resulted from the monthly closing figure of net income before tax which was used to estimate accrued expenses and which differed from the audited figure.
B. Employee compensation distributed in stock				
(1) shares	-	-	-	
(2) amount	-	-	-	
(3) stock price	-	-	-	
C. Remuneration to directors and supervisors	-	-	-	

*: The difference amounting to NT$26 thousand is regarded as changes in accounting estimates and recognized as a profit or loss for 2017.

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 2017, 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, 2017

Issue for Improvement	Corrective Actions	Target Completion Date
1. Financial Supervisory Commission ("FSC") imposed an administrative fine of NTD 2 million on CTBC Bank due to an improper information technology (" IT") operation incident which resulted in unexpected deletion of some audio recordings.	(1) CTBC Bank had strengthened IT operation with the following actions: extending retention period of audio recordings, establishing tape back-up mechanism, implementing dual-backup system at remote site, and improving the management of authorization and post monitoring of privileged account usage, etc. (2) CTBC Bank will implement a rectification plan to enhance information security and personal data protection, and such plan will be reviewed independently by an external expert. Moreover, the external review report on the effectiveness of executing the aforesaid rectification plan will be submitted to FSC.	March 31, 2018
2. FSC conducted a limited-scope examination on CTBC Bank in 2016 regarding the credit business of Offshore Banking Unit ("OBU") and found that the Bank had either assisted customers in preparing their financial reports, or improperly conducted customer identity verification, or inadequately assessed customers' risk capacity in the treasury marketing business. As a consequence, FSC imposed a reprimand on CTBC Bank.	CTBC Bank had revised and reiterated the related operation procedures.	Completed

Issue for Improvement	Corrective Actions	Target Completion Date
3. FSC conducted a limited-scope examination on CTBC Bank in 2016 covering the acquisition of corporate customers' board resolutions, the account opening of OBU customers and the verification of customers' financial statements. It was found that the Bank had not prudently reviewed the authenticity of customers' board resolutions in treasury marketing business. As a consequence, FSC imposed a reprimand on CTBC Bank.	CTBC Bank had revised and reiterated the related operation procedures.	Completed
4. FSC conducted a full-scope examination on the Tokyo Start Bank ("TSB", the subsidiary of CTBC Bank) in 2016 and found that the Bank should improve its supervision on TSB's investment activities in private equity funds. As a consequence, FSC imposed a reprimand on CTBC Bank.	CTBC Bank had requested TSB to establish related control mechanism.	Completed
5. FSC conducted a limited-scope examination on CTBC Bank in 2017 covering the follow-up of previous examination findings and the sale of structured product. It was found that the Bank had improper implementation of know your customer ("KYC") processes and inadequate dual controls for system authority granted to financial advisors ("FAs"). As a consequence, FSC imposed a reprimand on CTBC Bank.	(1) CTBC Bank had enhanced the KYC questionnaires and related control mechanism. (2) The FAs' system authority to maintain customer profiles as professional investors had been purged. Further, CTBC Bank will continuously re-inforce the dual controls over transactions.	Completed
6. FSC imposed an administrative fine of NTD 240 thousand against the legal representative of CTBC Bank due to a late announcement of loan asset disposal amounting to USD 10 million in Singapore Branch on the Taiwan Stock Exchange's "Market Observation Post System".	CTBC Bank had revised and reiterated the related operation procedures.	Completed

Issue for Improvement	Corrective Actions	Target Completion Date
7. It was found that certain staffs of PT Bank CTBC Indonesia ("CTBCI"), the subsidiary of CTBC Bank, involved in fraudulent cases of Salary Loans by using forged documents in loan applications.	(1) CTBCI had suspended the salary loan business and conducted an assessment over related controls. Rectification actions were proposed accordingly. The reactivation of the business is in accordance with the progress of rectification taken. (2) The appointed lawyers had taken proper legal actions to protect the Bank's interests.	September 30, 2018
8. It was found that certain corporate customers of CTBC Bank failed to fulfill their financial obligations to repay their debts. It was further identified as suspected loan fraud.	(1) CTBC Bank had enhanced the relevant risk control mechanism. (2) Legal actions had been taken to protect the Bank's interests.	Completed
9. CTBC Bank's treasury marketing business was found to assist a corporate customer in preparing its financial report without proper verification over customer's financial information.	CTBC Bank had refined relevant control procedures, enhanced verification of customers' financial information, and reiterated related requirements to the concerned business units.	Completed

VI. Audit Committee's Report on Last Year's Financial Statement

The Audit Committee's Report

In accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, the undersigned have duly examined and accepted as correct the financial report (unconsolidated and consolidated) for the year ended December 31, 2017 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

Jie-Haun Lee

Taipei, Taiwan, R.O.C.
April 27, 2018

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., Jhongzheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23113598
Huashan Branch	1F., No.55, Sec. 1, Zhongsiao E. Rd., Jhongzheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23413000
Dongmen Branch	1F., No.213, Sec. 2, Sinyi Rd., Jhongjheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23958000
Chengjhong Branch	1F., No.83, Sec. 1, Chongcing S. Rd., Jhongjheng District, Taipei City 100, Taiwan (R.O.C.)	+886-2-23818740
Daan Branch	1F., No.102, Sec. 2, Roosevelt Rd., Jhongjheng 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
Jhongshan Branch	1F., No.106-2, Sec. 2, Jhongshan N. Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25235222
Minsheng Branch	1F., No.58, Sec.1, Minsheng E. Rd., Jhongshan 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., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-85026002
Chengbei Branch	1F., No.218, Songjiang Rd., Jhongshan District, Taipei City 104, Taiwan(R.O.C.)	+886-2-25623789
Nanjing East Road Branch	1F., No.16, Sec. 1, Nanjing E. Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25232238
Chengdong Branch	1F., No.88, Sec. 2, Nanjing E. Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25677377
Longjiang Mini Branch	1F., No.65, Sec. 3, Nanjing E. Rd., Jhongshan District, Taipei City 104, Taiwan (R.O.C.)	+886-2-25158811
Chang An Branch	No.26, Fusing N. Rd., Jhongshan 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
Shinfu Branch	1F., No.9, Songgao Rd., Sinyi District, Taipei City 110, Taiwan (R.O.C.)	+886-2-27221668

Branch Name	Address	Telephone
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, Jhongjheng 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	1F., No.182, Sec. 3, Kangning Rd., Neihu District, 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
Jiangcuei 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, Jhongjheng Rd., Yonghe District, New Taipei City 234, Taiwan (R.O.C.)	+886-2-29233333
Nashihjiao Branch	1F., No.65, Jhongjheng Rd., Yonghe District, New Taipei City 234, Taiwan (R.O.C.)	+886-2-29498838
Banhe Mini Branch	1F., No.726, Jhongjheng 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
Sinjhuang Branch	1F., No.320, Jhongjheng Rd., Sinjhuang District, New Taipei City 242, Taiwan (R.O.C.)	+886-2-29929696
Danfong Branch	1F., No.879-15, Jhongjheng Rd., Sinjhuang District, New Taipei City 242, Taiwan (R.O.C.)	+886-2-29066888

Branch Name	Address	Telephone
Xinfu Branch	No.333, Zhongyuan Rd., Xinzhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	+886-2-89916999
North Sinjhuang Branch	1F., No.57, Sec. 2, Jhonghua Rd., Sinjhuang District, New Taipei City 242, Taiwan (R.O.C.)	+886-2-22776789
Minan Branch	1F., No.179, Min-an Rd., Sinjhuang 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 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, Jhongjheng 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., Jhubei 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.1247, Zhongzheng Rd., Taoyuan Dist, Taoyuan City 330, Taiwan (R.O.C.)	+886-3-3567785
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, Jhongjheng 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
Intercontinental Mini Branch	1F, No.418, Sec. 3, Chongde Rd., Beitun Dist., Taichung City 406, Taiwan (R.O.C.)	+886-4-24229391
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
Liming Branch	1F., No.173, Sec. 3, Liming Rd., Xitun Dist., Taichung City 407, Taiwan (R.O.C.)	886-4-27082200
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
Hueijhong Branch	No. 88, Sec. 3, Hueijhong Rd., Nantun Dist., Taichung City 408, Taiwan (R.O.C.)	+886-4-23891269

Branch Name	Address	Telephone
Dali Branch	No.201, Sec. 2, Guoguang Rd., Dali Dist., Taichung City 412, Taiwan (R.O.C.)	+886-4-24073777
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 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 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.)	+886-7-7777668
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
Shanghai Branch	27F, Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai 200120, P.R.C.	86-21-20805888	86-21-68778788
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
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
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
Singapore Branch	8 Marina View, #29-01, Asia Square Tower 1, Singapore 018960	65-63514888	65-65325999
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	Suite 2-9, 9th Floor, MPlaza Saigon, No. 39 Le Duan Street, District 1, Ho Chi Minh City, Vietnam	84-28-39101888	84-28-39101999
Tokyo Branch	Kioi Tower 28F, Tokyo Garden Terrace Kioicho, 1-3 Kioicho, Chiyoda-ku, Tokyo 102-0094, Japan	81-3-32889888	81-3-35568892
New York Branch	11F, #521 Fifth Avenue, New York, NY 10175, U.S.A.	1-212-4578888	1-212-4576666

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 St, Suite 2300(22 to 23 Floors), Los Angeles, CA 90017, USA	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 Rep. Office	Suite 803, 8F, GPF Witthayu, Tower A, 93/1 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	66-2-2543139	66-2-2566480
Hanoi Rep. Office	East-3002, 30th Floor, LOTTE Center Hanoi, No. 54 Lieu Giai Street, Cong Vi Ward, Ba Dinh District, Hanoi, Vietnam	84-24-38249088	84-24-38249099
Los Angeles Rep. Office	17851 Colima Road, Suite A2, City of Industry, CA91748, U.S.A.	1-626-8397660	1-626-9120868
Beijing Rep. Office	B-111, The Grand Pacific Building, 8a, Guanghua Rd., Chao Yang District, Beijing, P. R.C. 100026	86-10-65813700	86-10-65815701
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
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

Stock Code:5841

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)

Address: **No.166, 168, 170,186,188, Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan, R.O.C.**
Telephone: **886-2-3327-7777**

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.

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Internet 網址 kpmg.com/tw

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, 2017 and 2016, and the consolidated statement of comprehensive income, changes in consolidated stockholders' equity and consolidated cash flows for the year ended December 31, 2017 and 2016, 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 the Bank and its subsidiaries as of December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2017 and 2016 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 the Bank 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, 2017. 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, 2017 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 (g), (h) 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.

Other Matter

Individual financial statements of the Bank 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 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, 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 auditors' 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 and 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 for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' 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 auditors' report are Chen, Chun-Kuang and Wu, Lin.

KPMG

Taipei, Taiwan (Republic of China)
March 21, 2018

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such consolidated financial statements 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.

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	ASSETS	December 31, 2017 Amount	%	December 31, 2016 Amount	%
11000	Cash and cash equivalents (note 4 and 6(a))	$ 89,234,642	3	84,221,904	2
11500	Due from Central Bank and call loans to banks (note 6(b) and 8)	281,195,765	8	265,151,265	8
12000	Financial assets measured at fair value through profit or loss (note 4, 6(c) and (s), 7 and 8)	140,189,002	4	174,295,251	5
14000	Available-for-sale financial assets－net (note 4, 6(d) and (s), and 8)	214,952,284	6	594,750,306	17
12300	Derivative financial assets－hedging－net (note 4 and 6(e))	137,010	-	416,342	-
12500	Securities purchased under resell agreements (note 4 and 6(f))	-	-	237,500	-
13000	Receivables－net (note 4, 6(g) and (i), 7 and 8)	121,046,639	3	104,383,342	3
13200	Current income taxes assets (note 4)	510,424	-	684,466	-
13500	Loans－net (note 4, 6(h) and (i), and 7)	2,142,676,154	57	2,049,562,112	58
14500	Held-to-maturity financial assets－net (note 4, 6(j) and (s), and 8)	643,909,213	17	126,054,037	4
15000	Investment under equity method－net (note 4 and 6(k))	17,873,392	-	2,215,028	-
15500	Other financial assets－net (note 4, 6(i) and (l), and 8)	17,861,460	-	18,456,362	1
18500	Premises and equipment－net (note 4 and 6(n))	46,612,395	1	46,056,794	1
18700	Investment property－net (note 4 and 6(m))	2,207,123	-	4,450,140	-
19000	Intangible assets－net (note 4 and 6(o))	14,867,190	-	14,800,180	-
19300	Deferred income tax assets (note 4 and 6(aa))	6,907,914	-	8,145,564	-
19500	Other assets－net (note 4 and 6(p))	21,317,913	1	28,792,610	1
	TOTAL ASSETS	**$ 3,761,498,520**	**100**	**3,522,673,203**	**100**

	LIABILITIES AND EQUITY	December 31, 2017 Amount	%	December 31, 2016 Amount	%
	Liabilities:				
21000	Deposits from Central Bank and other banks (note 6(q))	$ 74,874,783	2	63,498,683	2
21500	Due to Central Bank and other banks (note 6(r))	4,323,876	-	6,040,305	-
22000	Financial liabilities measured at fair value through profit or loss (note 4, 6(c) and 7)	67,430,644	2	92,157,485	3
22300	Derivative financial liabilities－hedging－net (note 4 and 6(e))	16,865	-	303,599	-
22500	Securities sold under repurchase agreements (note 4 and 6(s))	62,742,896	2	39,933,459	1
23000	Payables (note 6(t) and 7)	69,278,998	2	65,835,489	2
23200	Current income tax liabilities (note 4)	2,736,000	-	2,354,101	-
23500	Deposits and remittances (note 6(u) and 7)	2,981,845,216	79	2,762,677,752	78
24000	Financial debentures (note 6(c), (e) and (v))	69,290,443	2	71,405,898	2
25500	Other financial liabilities (note 6(w))	132,761,156	3	152,966,581	4
25600	Provisions (note 4, 6(x) and (z))	5,621,352	-	5,875,458	-
29300	Deferred tax liabilities (note 4 and 6(aa))	858,112	-	369,704	-
29500	Other liabilities (note 6(y))	10,008,060	-	6,157,844	-
	Total Liabilities	3,481,788,401	92	3,269,576,358	92
	Stockholders' Equity - Parent Company:				
	Capital stock :				
31101	Common stock (note 6(ac))	140,685,719	4	131,125,735	4
	Capital surplus:(note 6(ac))				
31501	Capital premium	28,607,197	1	28,607,197	1
31599	Others	1,181,491	-	1,181,491	-
	Retained earnings:				
32001	Legal reserve	71,848,629	2	64,920,980	2
32003	Special reserve	18,069,266	-	11,442,001	-
32005	Undistributed earnings (note 6(ad))	30,137,931	1	23,114,959	1
32500	Other equity interest (note 6(ac))	(10,897,594)	-	(7,378,311)	-
38000	**Non-controlling interests**	77,480	-	82,793	-
	Total Equity	279,710,119	8	253,096,845	8
	TOTAL LIABILITIES AND EQUITY	**$ 3,761,498,520**	**100**	**3,522,673,203**	**100**

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		For the years ended December 31				
		2017		2016		Change
		Amount	%	Amount	%	%
41000	Interest income(note 6(ag))	$ 67,347,690	72	65,265,705	74	3
51000	Less: Interest expenses(note 6(ag))	(19,174,308)	(20)	(17,942,913)	(20)	7
	Net interest income(note 6(ag))	48,173,382	52	47,322,792	54	2
	Net non-interest income (loss)					
49100	Service fee and commission income(note 6(ah))	31,890,031	34	32,186,852	36	(1)
49200	Gains on financial assets or liabilities measured at fair value through profit or loss(note 6(ai))	7,651,388	8	6,724,284	8	14
49300	Realized gains on available-for-sale financial assets	745,768	1	1,871,638	2	(60)
49400	Realized gains on held-to-maturity financial assets	3,858	-	505	-	664
49600	Foreign exchange gains	2,552,755	3	1,845,567	2	38
49700	Impairment loss on assets	(42,574)	-	(127,155)	-	67
49750	Proportionate share of gains from associates or joint ventures under equity method(note 6(k))	1,404,768	1	80,760	-	1,639
49800	Other net non-interest income	1,429,107	1	714,145	1	100
49815	Gain on investment property(note 6(m))	2,574,711	3	-	-	100
49899	Public-welfare lottery payment	(2,700,000)	(3)	(2,700,000)	(3)	-
	Net revenue	93,683,194	100	87,919,388	100	7
58200	**Provisions for bad debt expenses and guarantee reserve(note 6(i))**	(2,480,381)	(3)	(5,813,296)	(6)	(57)
	Operating expenses:					
58500	Employee benefits expenses(note 6(aj))	(29,971,528)	(32)	(28,130,690)	(32)	7
59000	Depreciation and amortization expenses(note 6(ak))	(3,271,508)	(3)	(3,225,452)	(4)	1
59500	Other general and administrative expenses(note 6(am))	(21,311,386)	(23)	(21,823,272)	(25)	(2)
	Total operating expenses	(54,554,422)	(58)	(53,179,414)	(61)	3
61001	**Net income before tax from continuing operations**	36,648,391	39	28,926,678	33	27
61003	**Income tax expenses(note 6(aa))**	(6,625,232)	(7)	(5,830,481)	(7)	(14)
	Net Income	30,023,159	32	23,096,197	26	30
65000	**Other comprehensive income:**					
65200	**Items that will not be reclassified subsequently to profit or loss**					
65201	Remeasurement gains related to defined benefit plans	152,481	-	31,649	-	382
65205	Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	(1,105,808)	(1)	(1,931,883)	(2)	43
65206	Proportionate share of other comprehensive losses from associates or joint ventures under the equity method- items that will not be reclassified to profit or loss	(5,209)	-	(2,222)	-	(134)
65220	Income tax related to items that will not be reclassified to profit or loss	(31,109)	-	(6,630)	-	(369)
	Subtotal	(989,645)	(1)	(1,909,086)	(2)	48
65300	**Items that are or may be reclassified subsequently to profit or loss**					
65301	Exchange differences of overseas subsidiaries' financial reports translation	(4,612,504)	(5)	(2,716,858)	(3)	(70)
65302	Unrealized valuation gains (losses) on available-for-sale financial assets	1,839,335	2	(2,245,642)	(2)	182
65306	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	168,640	-	(29,705)	-	668
65320	Income tax related to items that are or may be reclassified to profit or loss	184,287	-	410,026	-	(55)
	Subtotal	(2,420,242)	(3)	(4,582,179)	(5)	47
65000	**Other comprehensive losses (net amount after tax)**	(3,409,887)	(4)	(6,491,265)	(7)	47
66000	**Total comprehensive income**	**$ 26,613,272**	**28**	**16,604,932**	**19**	60
	Net Income attributable to:					
67101	Parent company	$ 30,021,451	32	23,092,164	26	30
67111	Non-controlling interest	1,708	-	4,033	-	(58)
		$ 30,023,159	**32**	**23,096,197**	**26**	
	Comprehensive income attributable to:					
67301	Parent company	$ 26,618,585	28	16,603,126	19	60
67311	Non-controlling interest	(5,313)	-	1,806	-	(394)
		$ 26,613,272	**28**	**16,604,932**	**19**	
	Earnings per share (unit: NT dollars) (note 6(af))	**2.13**		**1.66**		

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Stockholders' Equity - Parent company										
	Capital stock		Retained earnings			Other equity interest					
	Common 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	Change in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	Stockholders' equity - parent company	Non-controlling interests	Total equity
Balance at January 1, 2016	$ 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	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
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	10,272,080	-	(10,272,080)	-	-	-	-	-	-
Stock dividends of 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	-	3,000,000
Balance at 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	82,793	253,096,845
Net income	-	-	-	-	30,021,451	-	-	-	30,021,451	1,708	30,023,159
Other comprehensive income (losses)	-	-	-	-	116,417	(4,174,051)	1,760,576	(1,105,808)	(3,402,866)	(7,021)	(3,409,887)
Total comprehensive income (losses)	-	-	-	-	30,137,868	(4,174,051)	1,760,576	(1,105,808)	26,618,585	(5,313)	26,613,272
Appropriation and distribution of retained earnings:											
Legal reserve appropriated	-	-	6,927,649	-	(6,927,649)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	6,627,263	(6,627,263)	-	-	-	-	-	-
Stock dividends of common share	9,559,984	-	-	-	(9,559,984)	-	-	-	-	-	-
Other	-	-	-	2	-	-	-	-	2	-	2
Balance at December 31, 2017	**$ 140,685,719**	**29,788,688**	**71,848,629**	**18,069,266**	**30,137,931**	**(8,500,761)**	**(973,883)**	**(1,422,950)**	**279,632,639**	**77,480**	**279,710,119**

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

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	**2016**
Cash Flows from Operating Activities:		
Net Income Before Tax	$ 36,648,391	28,926,678
Adjustments:		
Income and expenses items:		
Depreciation expense	2,198,218	2,133,305
Amortization expense	1,096,119	1,092,147
Provision for bad debt expense	2,480,381	5,813,296
Net (gains) losses on financial assets or liabilities measured at fair value through profit or loss	(4,162,491)	2,182,408
Interest expense	19,174,308	17,942,913
Interest income	(67,347,690)	(65,265,705)
Dividend income	(545,592)	(383,063)
Net change in other provisions	(671,285)	(18,643)
Losses on disposal of foreclosed properties	-	2,090
Proportionate share of gains from associates or joint ventures under the equity method	(1,404,768)	(80,760)
Losses on disposal and retirement of premises and equipment	38,284	62,854
Gains on disposal of investment properties	(2,578,315)	-
Losses (gains) on disposal of intangible assets	1,439	(10,292)
(Gains) losses on disposal of investments under cost method	(47,535)	5,748
Impairment loss on financial assets	8,814	53,900
Impairment loss on non-financial assets	33,760	73,255
Losses on disposal of foreclosed properties	2,461	-
Other adjustments	(1,966,363)	(942,962)
Subtotal of income and expense items	(53,690,255)	(37,339,509)
Changes in Operating Assets and Liabilities:		
Net Changes in Operating Assets:		
Decrease in due from Central Bank and call loans to banks	3,027,731	19,097,410
Decrease (increase) in financial assets measured at fair value through profit or loss	40,199,562	(37,204,717)
Decrease (increase) in hedging derivative financial assets	279,332	(308,816)
(Increase) decrease in receivables	(15,019,892)	27,572,280
Increase in loans	(94,311,491)	(42,007,995)
Decrease (increase) in available-for-sale financial assets	381,315,297	(141,035,581)
(Increase) decrease in held-to-maturity financial assets	(517,863,991)	21,609,548
Decrease (increase) in other financial assets	536,072	(424,945)
Net Changes in Operating Assets	(201,837,380)	(152,702,816)
Net Changes in Operating Liabilities:		
Increase in deposits from Central Bank and other banks	11,376,100	17,864,409
Decrease in financial liabilities measured at fair value through profit or loss	(30,638,607)	(24,930,325)
Decrease in hedging derivative financial liabilities	(286,734)	(137,829)
Increase in payables	2,214,263	8,976,551
Increase in deposits and remittances	219,167,464	28,294,141
(Decrease) increase in other financial liabilities	(18,780,616)	2,141,405
Decrease in employee benefits reserve	(201,663)	(156,918)
Net Changes in Operating Liabilities	182,850,207	32,051,434
Net Changes in Operating Assets and Liabilities	(18,987,173)	(120,651,382)
Sum of Adjustments	(72,677,428)	(157,990,891)
Cash Used in Operating Activities	(36,029,037)	(129,064,213)
Interest received	65,700,024	65,253,253
Dividends received	1,813,817	466,574
Interest paid	(17,925,199)	(21,017,752)
Income tax paid	(4,535,290)	(5,544,897)
Net Cash Flows Provided by (Used in) Operating Activities	9,024,315	(89,907,035)

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	**2016**
Cash Flows from Investing Activities:		
Purchase of financial assets carried at cost	$ (198,962)	(82,263)
Disposal of financial assets carried at cost	133,697	-
Proceeds from capital reduction of financial assets at cost	50	-
Purchase of financial assets under equity method	(15,178,437)	(27,053)
Purchase of premises and equipment	(2,638,437)	(3,246,229)
Disposal of premises and equipment	15,410	14,021
Purchase of intangible assets	(1,090,741)	(1,056,740)
Disposal of intangible assets	-	11,231
Disposal of foreclosed properties	37,606	20,088
Disposal of investment properties	4,411,953	-
Decrease in receivables	-	12,979,683
Decrease in other assets	5,033,119	8,560,502
Net Cash Flows (Used in) Provided by Investing Activities	(9,474,742)	17,173,240
Cash Flows from Financing Activities:		
Decrease in due to Central Bank and other banks	(1,716,429)	(13,694,724)
Issuance of financial debentures	1,000,000	-
Repayments of financial debentures	(2,981,460)	(45,284,127)
Increase (decrease) in securities sold under repurchase agreements	22,809,437	(10,714,624)
Increase in financial liabilities designated as at fair value through profit or loss, upon initial recognition	5,372,640	25,177,620
Increase (decrease) in payables	4,555	(158,228)
Increase in other liabilities	3,851,248	784,629
Proceeds from issuing shares	-	3,000,000
Net Cash Flows Provided by (Used in) Financing Activities	28,339,991	(40,889,454)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4,042,095)	(878,565)
Increase (decrease) in Cash and Cash Equivalents	23,847,469	(114,501,814)
Cash and Cash Equivalents at the Beginning of Period	290,270,609	404,772,423
Cash and Cash Equivalents at the End of Period	**$ 314,118,078**	**290,270,609**
Composition of Cash and Cash Equivalents:		
Cash and cash equivalents recognized in balance sheet	$ 89,234,642	84,221,904
Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents	224,883,436	205,811,205
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 Period	**$ 314,118,078**	**290,270,609**

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

(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.

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;

(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;

(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 2017, the Bank had 150 domestic branches, 11 foreign branches and 7 overseas representative offices, whereas its subsidiaries had 92 overseas offices.

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

(2) Approval Date and Procedures of the Consolidated Financial Reports:

The consolidated financial reports were approved by the board of directors on March 21, 2018.

(3) New Standards, Amendments and Interpretations Adopted:

(a) The impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") which have already been adopted.

The Bank and its subsidiaries are required to conform to the IFRSs which were endorsed by the FSC on January 1, 2017 in preparing financial statements. The related new standards, amendments and interpretations are as follows:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 " Presentation of Financial Statements-Disclosure Initiative	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendments to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendments to IAS 36 " Impairment of Non-Financial assets- Recoverable Amount Disclosures for Non Financial Assets"	January 1, 2014
Amendments to IAS 39 " Financial Instruments-Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual Improvements to IFRSs 2010 2012 Cycle and 2011 2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012 2014 Cycle	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

The Bank and its subsidiaries assessed that the initial application of the above IFRSs would not have any material impact on the consolidated financial statements.

(b) The impact of IFRSs endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Bank and its subsidiaries can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, Except for the following items, the adoption of the above IFRSs would not have any material impact on the consolidated financial statements. The principal changes and relevant impact of the new standard are as follows:

IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" which contains classification and measurement of financial instruments, impairment and hedge accounting.

1) Classification and measurement- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of available for sale, financial assets carried at cost, debt investments without active markets and held to maturity. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Bank and its subsidiaries will reclassify and measure their financial assets in accordance with the requirements of the aforementioned IFRS 9 and the above changes may result in the increase of $242 million in other equity interests and $732 million in retained earnings on January 1, 2018..

2) Impairment-Financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. This will require considerable judgment as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortized cost, FVOCI investments in debt instruments, loan commitments and financial guarantee contracts.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and

- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The Bank and its subsidiaries’ allowances for credit losses are determined in accordance with relevant legal interpretations, regulations or IFRS 9, which is higher. The Bank and its subsidiaries estimated the application of IFRS 9’s impairment requirements on January 1, 2018 resulting in an increase of $61 million in other equity interets and a decrease of $219 million in retained earnings.

3) Hedge accounting

When initially applying IFRS 9, the Bank and its subsidiaries may choose as its accounting policy to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements in IFRS 9. The Bank and its subsidiaries has chosen to continue to apply the hedge accounting requirements of IAS 39.

4) Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk, expected credit losses and hedge accounting.

5) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

- The Bank and its subsidiaries will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and other equity interests as at January 1, 2018.

- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

  – The determination of the business model within which a financial asset is held.

  – The designation of certain investments in equity instruments not held for trading as at FVOCI.

The actual impacts of adopting the standards may change depending on the economic conditions and events which may occur in the future.

(c) 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.

New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	January 1, 2019

Those which may be relevant to the Bank and its subsidiaries are set out below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows: • 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. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.
June 7, 2017	IFRIC 23 "Uncertainty over Income Tax Treatments"	• In assessing whether and how an uncertain tax treatment affects the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, an entity shall assume that a taxation authority will examine the amounts it has the right to examine and have a full knowledge on all related information when making those examinations. • If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the entity shall determine the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. Otherwise, an entity shall reflect the effect of uncertainty for each uncertain tax treatment by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty.

Issuance / Release Dates	**Standards or Interpretations**	**Content of amendment**
December 12, 2017	Annual Improvements to IFRS Standards 2015–2017 Cycle: • IFRS 3 Business Combinations and IFRS 11 Joint Arrangements • IAS 12 Income Taxes • IAS 23 Borrowing Costs	• Clarify how a company accounts for increasing its interest in a joint operation that meets the definition of a business. — If a party maintain joint control, then the previously held interest is not remeasured. — If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value. • Clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognized consistently with the transactions that generated the distributable profits in profit or loss, OCI or equity. • Clarify that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

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 will disclose the effect on the financial reports.

(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 the FSC ("IFRSs as accepted by the 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:

(i) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);

(ii) Available-for-sale financial assets measured at fair value;

(iii) Hedging derivative financial instruments measured at fair value;

(iv) Cash-settled share-based payment agreements liability measured at fair value; and

(v) 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

(i) Basis of compilation for consolidated financial reports

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

(ii) 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;

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

(iii) 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, 2017	Percentage of Ownership December 31, 2016
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. (Note 3)	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	- %	- %
〃	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 / Asset-backed security that is secured by mortgage / 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, 2017, 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.

Note 3： CTBC Capital Corp. remitted US$173,000 thousand in capital surplus and US$57,000 thousand in retained earnings on December 19, 2017.

(d) Foreign currency

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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.

(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

(i) 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 on balance sheet date. Changes in fair value are recognized in profit or loss as incurred.

2) Available-for-sale financial assets－net

On 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

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:

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 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.

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.

(ii) 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 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.

(iii) 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 accounts 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 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.

(iv) 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.

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 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:

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.

A property is reclassified to investment property at its carrying amount when the use of the property changes from owner-occupied to investment property.

(m) Intangible assets

(i) 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.

(ii) 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.

(o) Provisions

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

(i) An entity has a present obligation, legal or constructive, as a result of a past event;

(ii) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

(iii) 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)(i)4). loans and receivables for more information on interest income from receivables and loans.

(q) Employee benefit

(i) 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.

(ii) 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.

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.

(iii) 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 follows.

(i) 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.

(ii) 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.

(iii) 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 year 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:

(i) The entity has the legal right to settle tax assets and liabilities on a net basis; and

(ii) 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 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), as accepted by FSC, 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 might 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 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, 2017	December 31, 2016
Cash on hand	$ 28,213,172	26,007,757
Petty cash and revolving fund	22,167	22,758
Checks for clearance	4,034,062	4,723,305
Cash in transit	7,660,131	10,281,236
Due from other banks	49,305,110	43,186,848
Total	**$ 89,234,642**	**84,221,904**

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

	December 31, 2017	December 31, 2016
Required reserve—Account A	$ 32,983,852	42,506,803
Required reserve—Account B	47,876,260	44,443,419
Required reserve—Foreign Currency	-	103,293
Due from Central Bank	110,874,646	119,410,754
Call loans to banks	89,461,007	58,686,926
Bank overdrafts	-	70
Total	**$ 281,195,765**	**265,151,265**

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.

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

The financial assets held for trading and its subsidiaries were as follows:

	December 31, 2017	December 31, 2016
Financial assets held for trading		
Commercial paper	$ 71,070,961	86,814,786
Negotiable certificate of deposit	3,000,000	1,613,950
Treasury bills	-	87,330
Government bonds	762,811	2,820,882
Corporate bonds	448,792	28,306
Convertible bonds	594,100	1,944,116
Financial debentures	1,937,292	-
Asset-backed securities	12,003,226	-
Listed and OTC securities	1,197,350	10,920
Beneficiary certificates	122,736	-
Derivative financial assets	29,973,952	63,575,088
Valuation adjustment of financial assets	226,307	201,567
Subtotal	121,337,527	157,096,945
Designated as financial assets measured at fair value through profit or loss		
Government bonds	14,835,334	16,025,132
Corporate bonds	2,958,933	551,400
Other securities and bonds	1,125,825	1,240,650
Valuation adjustment of financial assets	(68,617)	(618,876)
Subtotal	18,851,475	17,198,306
Total	**$ 140,189,002**	**174,295,251**

Please refer to Note 6(s) and 8 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:

	December 31, 2017	December 31, 2016
Derivative financial liabilities	$ 33,340,291	63,978,898
Financial liabilities designated at fair value through profit or loss	34,090,353	28,178,587
Total	**$ 67,430,644**	**92,157,485**

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:

	December 31, 2017	December 31, 2016
Financial debentures at fair value	$ 34,090,353	28,178,587
Cumulative changes in fair value that is attributable to changes in the credit risk	1,422,950	317,142
The difference between book value and the amount payable upon maturity as specified in the contract	2,234,663	5,294,736

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, 2017 and 2016, there is no transfer of the cumulative gain or loss within equity.

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	
	2017	2016
January 1	$ 3,522,038	3,480,703
Current issuance of debentures	1,160,587	2,886,847
Current redemption of debentures	-	(2,093,048)
Current amortization	(872,678)	(681,498)
Foreign exchange losses	(264,112)	(70,966)
December 31	**$ 3,545,835**	**3,522,038**

(d) Available-for-sale financial assets－net

	December 31, 2017	December 31, 2016
Negotiable certificates of deposit	$ 11,439,890	389,021,654
Treasury bills	2,427,358	5,279,689
Government bonds	74,309,874	90,679,887
Corporate bonds	15,839,554	22,098,249
Financial debentures	73,770,279	41,774,233
Beneficiary certificates	4,916,233	2,739,398
Listed and OTC securities	4,892,137	5,683,109
Asset-backed securities	27,032,572	38,671,826
Other securities and bonds	596,969	963,265
Valuation adjustment of financial assets	(272,582)	(2,161,004)
Total	**$ 214,952,284**	**594,750,306**

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, 2017	December 31, 2016
Fair value hedge:		
Interest rate swaps	$ 27,455	48,756
Non delivery forwards	10,736	-
Hedge of a net investment in a foreign operation:		
Currency swaps	98,819	367,586
Total	**$ 137,010**	**416,342**

Hedging derivative financial liabilities of the Bank were as follows:

	December 31, 2017	December 31, 2016
Fair value hedge:		
Non-delivery forwards	$ -	19,779
Hedge of a net investment in a foreign operation:		
Currency swaps	16,865	283,820
Total	**$ 16,865**	**303,599**

(i) 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.

	Designated hedging instruments		
	Financial instruments	Fair value	
Hedged items	**designated as hedging instruments**	**December 31, 2017**	**December 31, 2016**
Financial debentures in NTD	Interest rate swaps	$ 27,455	48,756
Capital of international banking department in USD	Non-delivery forwards	10,736	(19,779)

For the years ended December 31, 2017 and 2016, net gains (losses) on the hedging derivative financial instruments and the hedged items were as follows:

	For the years ended December 31	
	2017	**2016**
Net gains from derivative financial instruments	**$ 20,808**	**11,512**
Net losses from the hedged items	**$ (136,757)**	**(118,110)**

(ii) 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.

	Designated hedging instruments		
	Financial instruments	Fair value	
Hedged items	**designated as hedging instruments**	**December 31, 2017**	**December 31, 2016**
CTBC Bank Co., Ltd.-Ho Chi Minh City Branch	Currency swaps	$ 4,585	(11,591)
CTBC Capital Corp.	〃	13,100	(133,127)
CTBC Bank Corp.(Canada)	〃	(4,508)	231
The Tokyo Star Bank, Ltd.	〃	68,777	228,253

(f) Securities purchased under resell agreements

	December 31, 2017	**December 31, 2016**
Securities purchased under resell agreements	**$ -**	**237,500**
Face value of securities	**$ -**	**218,177**

(g) Receivables－net

	December 31, 2017	December 31, 2016
Notes receivable	$ 37,832	34,817
Accounts receivable	78,602,773	63,983,818
Accounts receivable factoring	16,750,776	19,479,864
Interest receivable	7,686,189	6,185,808
Acceptances receivable	9,863,773	7,464,074
Accrued income	66,022	58,943
Securities receivable	746,665	38,651
Interbank clearing receivable	2,042,802	1,932,012
Premium receivable	4,366,818	3,937,838
Other receivables	3,642,415	4,377,235
Subtotal	123,806,065	107,493,060
Less: Allowance for credit losses	(2,759,426)	(3,109,718)
Total	**$ 121,046,639**	**104,383,342**

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.

	December 31, 2017	December 31, 2016
Receivables excluded from evaluation of impairment	**$ 8,995,060**	**7,000,749**

Items		December 31, 2017 Receivables	Adjustment of discount and premium	Allowance for credit losses
With objective evidence of impairment	Individual assessment	$ 1,825,333	-	1,268,672
	Collective assessment	3,352,410	-	445,107
Without objective evidence of impairment	Collective assessment	106,865,506	-	1,045,647
Total		**$ 112,043,249**	**-**	**2,759,426**

		December 31, 2016		
Items		**Receivables**	**Adjustment of discount and premium**	**Allowance for credit losses**
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		**$ 98,179,034**	**-**	**3,109,718**

(h) Loans－net

	December 31, 2017	**December 31, 2016**
Corporate loans	$ 506,428,777	471,813,529
Micro business loans	10,105,055	14,646,269
Mortgage loans	567,562,077	513,927,854
Automobile loans	532	653
Consumer loans	109,064,036	107,765,466
Subtotal of NTD loans	1,193,160,477	1,108,153,771
Foreign currency loans	969,540,074	959,216,621
Non-accrual loans	8,529,237	12,416,288
Subtotal	2,171,229,788	2,079,786,680
Less: Allowance for credit losses	(27,224,988)	(28,748,637)
Less: Adjustment of discount and premium	(1,359,613)	(1,538,540)
Fair value adjustment resulting from acquisition	30,967	62,609
Total	**$ 2,142,676,154**	**2,049,562,112**

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, 2017	**December 31, 2016**
Non-performing loans	**$ 8,872,330**	**13,114,386**

For the years ended December 31, 2017 and 2016, suspended interest on non-performing loans were as follows:

	For the years ended December 31	
	2017	**2016**
Suspended interest on non-performing loans	**$ 58,899**	**40,280**

For the years ended December 31, 2017 and 2016, 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.

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

Items		December 31, 2017 Loans	Adjustment of discount and premium	Allowance for credit losses
With objective evidence of impairment	Individual assessment	$ 13,320,492	(409)	4,114,406
	Collective assessment	18,034,584	4,253	3,241,514
Without objective evidence of impairment	Collective assessment	2,139,874,712	(1,363,457)	19,869,068
Total		**$ 2,171,229,788**	**(1,359,613)**	**27,224,988**

Items		December 31, 2016 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		**$ 2,079,786,680**	**(1,538,540)**	**28,748,637**

(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, 2017							
	Receivables			Loans				
	Inherent risk of overall claims	Default risk of specific claim	Total	Inherent risk of overall claims	Default risk of specific claims	Total	Other (Note)	Total
Beginning balance	$ 1,363,869	1,745,849	3,109,718	19,572,579	9,176,058	28,748,637	372,093	32,230,448
Current provision	(218,708)	171,658	(47,050)	718,589	1,205,290	1,923,879	722,436	2,599,265
Current write-off	-	(1,100,955)	(1,100,955)	(788)	(4,210,273)	(4,211,061)	(90,408)	(5,402,424)
Recovery of bad debts	-	895,175	895,175	-	1,342,678	1,342,678	2,215	2,240,068
Non-accrual loans transferred from non-loan financial assets	-	3,176	3,176	-	-	-	(3,176)	-
Exchange rate effects	(99,514)	(1,124)	(100,638)	(421,312)	(157,833)	(579,145)	16,227	(663,556)
Ending balance	**$ 1,045,647**	**1,713,779**	**2,759,426**	**19,869,068**	**7,355,920**	**27,224,988**	**1,019,387**	**31,003,801**

	For the year ended December 31, 2016							
	Receivables			Loans				
	Inherent risk of overall claims	Default risk of specific claim	Total	Inherent risk of overall claims	Default risk of specific claims	Total	Other (Note)	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 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	**$ 1,363,869**	**1,745,849**	**3,109,718**	**19,572,579**	**9,176,058**	**28,748,637**	**372,093**	**32,230,448**

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

(j) Held-to-maturity financial assets－net

	December 31, 2017	December 31, 2016
Commercial paper	$ -	318,556
Negotiable certificates of deposit	493,095,078	23,073,367
Treasury bills	3,663,716	4,088,773
Government bonds	99,668,188	73,466,267
Corporate bonds	22,374,859	7,096,741
Financial debentures	24,626,457	17,580,185
Asset backed securities	480,915	430,148
Total	**$ 643,909,213**	**126,054,037**

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

	December 31, 2017	
	%	**Book value**
Grand Bills Finance Corporation (original investment at $1,010,880 thousand)	21.15	$ 1,956,376
AZ-Star Co., Ltd. (original investment at JPY12,000 thousand)	40.00	4,163
AZ-Star 1 Investment Limited Partnership (original investment at JPY1,874,068 thousand)	43.98	249,232
LH Financial Group Public Company Limited (original investment at THB16,598,915 thousand)	35.62	15,663,621
Total		$ **17,873,392**

	December 31, 2016	
	%	**Book value**
Grand Bills Finance Corporation (original investment at $1,010,880 thousand)	21.15	$ 1,868,636
AZ-Star Co., Ltd. (original investment at JPY12,000 thousand)	40.00	4,107
AZ-Star 1 Investment Limited Partnership (original investment at JPY1,380,268 thousand)	43.98	342,285
Total		$ **2,215,028**

For the years ended December 31, 2017 and 2016, the amount of profit and loss from associates recognized under equity-method investments were as below:

	For the years ended December 31	
	2017	**2016**
Associates	$ **1,404,768**	**80,760**

(i) Information of significant associates:

On July 27, 2017, the Bank acquired 35.62% of the shares of LH Financial Group Public Company Limited for $15,044,568, and has significant influence on it. The relevant information is as follows:

Name of Associates	Nature of Relationship with the Bank	Main operating location/Registered Country of the Company	Percentage of Ownership December 31, 2017
LH Financial Group Public Company Limited	Investment under equity method	Thailand	35.62 %

The fair value of associates listed on the Stock Exchange (over the counter) which are material to the Bank and its subsidiaries are as follows:

		December 31, 2017
LH Financial Group Public Company Limited	$	11,667,151

Summarized financial information of LH Financial Group Public Company Limited was as follows:

		December 31, 2017
Total assets	$	213,296,979
Total liabilities		(178,019,203)
Net assets	**$**	**35,277,776**

		For the year ended December 31, 2017
Net revenue	$	3,439,659
Net income from continuing operations	$	2,373,559
Other comprehensive income		178,912
Comprehensive income	**$**	**2,552,471**

		For the year ended December 31, 2017
Proportionate share of net assets of associates as of December 31, 2017	$	12,564,885
Add: Premium on the investment under equity method		3,098,736
Book value of associates as of December 31, 2017	**$**	**15,663,621**

(ii) Information of insignificant associates:

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.

	For the years ended December 31		
		2017	2016
Net income from continuing operations	$	1,001,473	80,760
Other comprehensive income		34,613	(31,549)
Comprehensive income	**$**	**1,036,086**	**49,211**

(l) Other financial assets－net

	December 31, 2017	December 31, 2016
Short term advances	$ 1,497,797	723,023
Less: Allowance for credit losses－short-term advances	(42,260)	(22,330)
Deposits pledged	473,695	463,226
Investment in debt instruments without active markets—net	12,281,846	14,167,122
Financial assets carried at cost—net	2,691,927	2,753,979
Non-accrual loans transferred from non-loan financial assets	96,561	99,560
Less: Allowance for credit losses— non-accrual loans transferred from non-loan financial assets	(80,643)	(83,847)
Others	942,537	355,629
Total	**$ 17,861,460**	**18,456,362**

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, 2017			
	Cost	Accumulated depreciation	Accumulated impairment	Book value
Land	$ 1,807,400	-	132,725	1,674,675
Buildings	840,511	255,215	52,848	532,448
Total	**$ 2,647,911**	**255,215**	**185,573**	**2,207,123**
Fair value				**$ 3,326,634**

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	**$ 5,079,578**	**431,397**	**198,041**	**4,450,140**
Fair value				**$ 8,267,693**

Changes in the cost were as follows:

	2017.1.1	Current increase	Current decrease	Others	2017.12.31
Land	$ 3,645,587	5,542	1,843,729	-	1,807,400
Buildings	1,433,991	8,808	602,288	-	840,511
Total	**$ 5,079,578**	**14,350**	**2,446,017**	**-**	**2,647,911**

	2016.1.1	Current increase	Current decrease	Others	2016.12.31
Land	$ -	3,645,587	-	-	3,645,587
Buildings	-	1,433,991	-	-	1,433,991
Total	**$ -**	**5,079,578**	**-**	**-**	**5,079,578**

Changes in accumulated depreciation were as follows:

	2017.1.1	Current increase	Current decrease	Others	2017.12.31
Buildings	**$ 431,397**	**26,786**	**202,968**	**-**	**255,215**

	2016.1.1	Current increase	Current decrease	Others	2016.12.31
Buildings	**$ -**	**431,397**	**-**	**-**	**431,397**

Changes in accumulated impairment were as follows:

	2017.1.1	Current increase	Current decrease	Others	2017.12.31
Land	$ 149,316	18,248	34,839	-	132,725
Buildings	48,725	9,331	5,208	-	52,848
Total	**$ 198,041**	**27,579**	**40,047**	-	**185,573**

	2016.1.1	Current increase	Current decrease	Others	2016.12.31
Land	$ -	149,316	-	-	149,316
Buildings	-	48,725	-	-	48,725
Total	**$ -**	**198,041**	-	-	**198,041**

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.

The Bank sold the land and buildings in Daan, Songshan and Xinyi district in Taipei city in September and November, 2017 to CTBC Asset Management Co., Ltd. with a total contract price $4,350,552, referred to the appraisal report issued by real estate appraiser. The total profit of disposal is $2,535,287, accounted under gain on investment property.

(n) Premises and equipment－net

December 31, 2017	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	$ 13,097,269	-	41,383	13,055,886
Buildings	28,831,851	5,576,903	23,590	23,231,358
Transportation equipment	63,308	33,293	-	30,015
Miscellaneous equipment	7,830,080	4,072,783	-	3,757,297
Construction in progress	1,006,291	-	-	1,006,291
Prepayment for equipment	86,878	-	-	86,878
Prepayment for land and buildings	4,644,205	-	-	4,644,205
Leased premises	1,267,926	467,461	-	800,465
Total	**$ 56,827,808**	**10,150,440**	**64,973**	**46,612,395**

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	**$ 55,470,749**	**9,348,993**	**64,962**	**46,056,794**

Changes in the cost were as follows:

	January 1, 2017	Current increase	Current decrease	Others (exchange difference)	December 31, 2017
Land	$ 11,893,572	1,237,607	5,542	(28,368)	13,097,269
Buildings	28,680,112	921,714	629,937	(140,038)	28,831,851
Transportation equipment	71,182	12,375	14,577	(5,672)	63,308
Miscellaneous equipment	7,495,794	1,023,244	565,904	(123,054)	7,830,080
Construction in progress	562,538	858,494	413,489	(1,252)	1,006,291
Prepayment for equipment	29,497	219,842	162,461	-	86,878
Prepayment for land and buildings	5,603,558	344,149	1,303,502	-	4,644,205
Leased premises	1,134,496	291,954	125,931	(32,593)	1,267,926
Total	**$ 55,470,749**	**4,909,379**	**3,221,343**	**(330,977)**	**56,827,808**

	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	**$ 57,952,986**	**4,289,847**	**6,571,491**	**(200,593)**	**55,470,749**

Changes in accumulated depreciation were as follows:

	January 1, 2017	Current increase	Current decrease	Others (exchange difference)	December 31, 2017
Buildings	$ 5,171,462	1,012,556	539,416	(67,699)	5,576,903
Transportation equipment	33,767	11,560	9,318	(2,716)	33,293
Miscellaneous equipment	3,730,928	988,979	553,226	(93,898)	4,072,783
Leased premises	412,836	183,814	119,425	(9,764)	467,461
Total	**$ 9,348,993**	**2,196,909**	**1,221,385**	**(174,077)**	**10,150,440**

	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	**$ 8,017,847**	**2,133,305**	**734,997**	**(67,162)**	**9,348,993**

Changes in accumulated impairment as follows：

	January 1, 2017	Current increase	Current decrease	Others (exchange difference)	December 31, 2017
Land	$ 41,383	-	-	-	41,383
Buildings	23,579	11	-	-	23,590
Total	**$ 64,962**	**11**	**-**	**-**	**64,973**

	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	**$ 191,326**	**29,169**	**155,533**	**-**	**64,962**

(o) Intangible assets－net

	December 31, 2017	December 31, 2016
Goodwill	$ 10,385,891	10,385,891
Computer software	4,481,299	4,413,258
Others	-	1,031
Total	**$ 14,867,190**	**14,800,180**

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

Changes in intangible assets were as follows:

	January 1, 2017	Current increase	Current decrease	Others (exchange difference)	December 31, 2017
Goodwill	$ 10,385,891	-	-	-	10,385,891
Computer software	4,413,258	1,462,464	1,292,993	(101,430)	4,481,299
Others	1,031	-	1,031	-	-
Total	**$ 14,800,180**	**1,462,464**	**1,294,024**	**(101,430)**	**14,867,190**

	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**

(p) Other assets－net

	December 31, 2017	December 31, 2016
Prepayments	$ 4,711,966	3,669,191
Foreclosed properties received－net	137,389	151,478
Temporary payments	55,547	74,655
Refundable deposits－net	10,908,349	19,445,660
Long-term prepaid rent	2,584,780	2,652,063
Cash surrender value of life insurance	1,728,728	1,818,490
Others	1,191,154	981,073
Total	**$ 21,317,913**	**28,792,610**

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 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. As of December 31, 2017, the account balance was $240,000.

(q) Deposits from Central Bank and other banks

	December 31, 2017	December 31, 2016
Deposits from Central Bank	$ 216,674	158,880
Deposits from other banks	22,151,951	21,781,325
Deposits from post offices	1,147,904	1,481,894
Overdraft against other banks	1,137,347	566,231
Due to other banks	50,220,907	39,510,353
Total	**$ 74,874,783**	**63,498,683**

(r) Due to Central Bank and other banks

	December 31, 2017	December 31, 2016
Financing from Central Bank	$ 1,608,414	3,058,868
Financing from other banks	2,715,462	2,981,437
Total	**$ 4,323,876**	**6,040,305**

Financing from Central Bank:

(i) The Bank

	December 31, 2017	December 31, 2016
Borrowings (USD)	$ 25,806	38,710
Interest rate	1.45% 6M LIBOR	1.22% 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

(ii) The Tokyo Star Bank, Ltd.

	December 31, 2017	December 31, 2016
Borrowings (JPY)	$ 3,164,000	6,562,780
Interest rate	1.46%~1.66%	0~0.126%
Maturity date	December 4, 2018	September 5, 2017
Interest payment	at the maturity date	at the maturity date

Financing from other banks:

(i) CTBC Bank Corp. (USA)

	December 31, 2017	December 31, 2016
Inter bank borrowings (USD)	$ 65,000	75,000
Interest rate	0.96%~2.96%	0.91%~2.96%
Maturity date	December 31, 2020	December 31, 2020

(ii) PT. Bank CTBC Indonesia

	December 31, 2017	December 31, 2016
Inter bank borrowings (IDR)	$ 352,315,972	233,731,588
Interest rate	1.77%~6.55%	1.37%~7.80%
Maturity date	March 28, 2018	November 2, 2018

(s) Securities sold under repurchase agreements

	December 31, 2017			
Assets	**Par value**	**Selling price (Note)**	**Designated repurchase amount**	**Designated repurchase date**
Financial assets measured at fair value through profit or loss	$ 14,687,324	14,515,464	14,532,597	Before January 22, 2018
Available-for-sale financial assets－net	479,345	451,536	453,081	Before January 19, 2018
Held-to-maturity financial assets－net	47,334,100	47,775,896	47,832,827	Before March 27, 2018
Total	**$ 62,500,769**	**62,742,896**	**62,818,505**	

	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	**$ 39,300,558**	**39,933,459**	**39,954,355**	

Note: Recognized under securities sold under repurchase agreements.

(t) Payables

	December 31, 2017	**December 31, 2016**
Accounts payable	$ 8,311,919	6,491,674
Accounts payable factoring	3,508,696	6,299,204
Accrued expenses	17,872,017	15,259,778
Interest payable	6,922,160	5,697,469
Acceptances payable	9,699,440	7,341,593
Collection payable	3,835,308	3,533,371
Other tax payable	616,346	637,368
Dividends and bonuses payable	190,278	179,630
Checks for clearance	3,988,688	4,545,509
Interbank clearing payable	908,074	738,472
Miscellaneous lottery accounts payable	8,668,370	9,415,471
Construction retainage received	-	14,895
Online accounts payable	623,425	409,174
Securities payable	1,302,797	6,638
Premium payable	1,676,603	3,050,776
Other payables	1,154,877	2,214,467
Total	**$ 69,278,998**	**65,835,489**

(u) Deposits and remittances

	December 31, 2017	December 31, 2016
NTD deposits		
Checking accounts	$ 9,595,727	8,886,955
Demand deposits		
Demand deposits	194,135,739	163,194,824
Demand savings deposits	677,104,314	629,748,956
Public treasury deposits	10,073,470	9,521,044
Subtotal of demand deposits	881,313,523	802,464,824
Time deposits		
Time deposits	199,188,241	147,097,711
Time savings deposits	431,511,895	429,363,919
Negotiable certificates of deposit	1,266,500	1,365,000
Public treasury deposits	26,050,000	10,170,506
Others	10,312,500	10,837,500
Subtotal of time deposits	668,329,136	598,834,636
Subtotal of NTD deposits	1,559,238,386	1,410,186,415
Foreign currency deposits	1,419,869,067	1,351,419,804
Stored value cards	167	167
Remittances under custody	111,378	71,608
Remittances outstanding	2,626,218	999,758
Total	**$ 2,981,845,216**	**2,762,677,752**

(v) Financial debentures

Bonds	December 31, 2017	December 31, 2016
2008-1	$ 2,000,000	2,000,000
2011-1	12,900,000	12,900,000
2014-1 (subordinated financial debentures)	20,000,000	20,000,000
2014-2 (subordinated financial debentures)	15,000,000	15,000,000
2015-1 (Note 3)	7,670,936	8,295,703
2015-2	12,000,000	12,000,000
2015-3	5,000,000	5,000,000
2016-1 (Note 3)	23,281,440	25,177,620
2017-1 (Note 3)	5,372,640	-
2017-2	1,000,000	-
No.11 Callable Unsecured Bond	-	578,970
No.13 Callable Unsecured Bond	-	1,654,200
No.14 Callable Unsecured Bond	-	551,400
No.15 Callable Unsecured Bond	-	275,700
No.16 Callable Unsecured Bond	291,390	303,270
No.17 Callable Unsecured Bond	1,086,090	1,130,370
Adjustment for fair value increase of hedged transactions	28,322	51,765
Unamortized discount	(15,359)	(39,777)
Less: financial liability designated at fair value through profit or loss(Note 3)	(36,325,016)	(33,473,323)
Total	**$ 69,290,443**	**71,405,898**

	Terms of transactions			Bond issued
Bonds	Issue date	Maturity date	Interest rate	Type
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)	〃
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
2015-1	01/27/2015	01/27/2045	0% (Note 3)	Unsecured financial debentures
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
2016-1	11/29/2016	11/29/2044	0% (Note 3)	Unsecured financial debentures
2017-1	03/29/2017	03/29/2047	0% (Note 3)	〃
2017-2	05/19/2017	05/19/2020	0.83%	〃
No.11 Callable Unsecured Bond	06/29/2012	06/29/2022	4.00%; an interest is payable semi annually	Unsecured subordinated financial debentures
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.

Note 2: 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.

Note 3: Financial debentures of 2015-1, 2016-1 and 2017-1 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.

(w) Other financial liabilities

	December 31, 2017	December 31, 2016
Lease payable	$ 785,608	733,675
Structured products	101,319,263	126,960,940
Guarantee deposit-securities lending transaction	30,656,153	25,268,386
Others	132	3,580
Total	**$ 132,761,156**	**152,966,581**

(x) Provisions

	December 31, 2017	December 31, 2016
Settlement compensation provision	$ 240,175	938,904
Employee benefits provision	4,299,985	4,501,648
Guarantee reserve	870,320	251,478
Other provisions	210,872	183,428
Total	**$ 5,621,352**	**5,875,458**

(y) Other liabilities

	December 31, 2017	December 31, 2016
Amount received in advance	$ 461,803	478,579
Payable in custody	559,212	219,754
Deferred income	1,082,314	545,344
Guarantee deposits received	6,152,347	2,983,719
Temporary receipt	1,539,130	1,542,393
Others	213,254	388,055
Total	**$ 10,008,060**	**6,157,844**

(z) Employee benefits

(i) 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, 2017 and 2016, the pension expense under defined contribution plan of the Bank and its subsidiaries amounted to $689,526 and $650,504, respectively, and were contributed to the Bureau of Labor Insurance or labor agencies designated by local authorities in the case of overseas units.

(ii) Employee benefits provision

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

	December 31, 2017	December 31, 2016
Defined benefits plan	$ 3,543,414	3,926,052
Retiree deposits with favorable rates and other post-employment benefits	394,818	241,363
Total	**$ 3,938,232**	**4,167,415**

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:

	December 31, 2017	December 31, 2016
Present value of defined benefits obligation	$ 8,997,332	9,340,926
Fair value of plan assets	(5,453,918)	(5,414,874)
Net defined benefit liability	**$ 3,543,414**	**3,926,052**

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.

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, 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Defined benefits obligation at January 1	$ 9,340,926	9,444,207
Current service costs and interest	231,625	245,308
Remeasurements of net defined benefit liability		
Actuarial gains arising from changes in financial assumption	203,343	-
Actuarial (losses) gains arising from experience adjustments	(339,199)	1,988
Benefits paid by the plan	(439,363)	(350,577)
Defined benefits obligation at December 31	**$ 8,997,332**	**9,340,926**

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, 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Fair value of plan assets at January 1	$ 5,414,874	5,312,082
Interest income	67,686	66,401
Remeasurements of net defined benefit liability		
Return on plan assets (exclude current interest)	50,017	18,592
Contribution plans made	360,704	368,376
Benefits paid by the plan	(439,363)	(350,577)
Fair value of plan assets at December 31	**$ 5,453,918**	**5,414,874**

d) Expense recognized in profit or loss

	For the years ended December 31, 2017	2016
Current service costs	$ 114,863	127,256
Net interest of net defined benefit liability	49,076	51,651
Total	**$ 163,939**	**178,907**

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, 2017 and 2016 were as follows:

	For the years ended December 31,	
	2017	**2016**
Cumulative amount at January 1	$ (1,466,030)	(1,481,780)
Recognized during the period	185,873	15,750
Cumulative amount at December 31	**$ (1,280,157)**	**(1,466,030)**

f) Primary actuarial assumptions

The following are the primary actuarial assumptions at the reporting date:

	December 31, 2017	**December 31, 2016**
Discount rate	0.75 %	1.25 %
Increasing rate of future compensation levels	3.00 %	3.00 %

The Bank expected $123,229 in contributions to be paid to defined benefit plans within a year after report date of 2017.

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, 2017 and 2016 were as follows:

	Present value of the benefits obligation effects	
	Increase 0.25%	**Decrease 0.25%**
December 31, 2017		
Discount rate	$ (102,934)	105,543
December 31, 2016		
Discount rate	(123,753)	127,016

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.

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:

	December 31, 2017	December 31, 2016
Present value of defined benefits obligation	$ 397,046	241,363
Fair value of plan assets	-	-
Net defined benefit liability	**$ 397,046**	**241,363**

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, 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Defined benefits obligation at January 1	$ 241,363	237,442
Current service costs and interest	17,855	7,536
Past service costs	173,595	17,458
Remeasurements of net defined benefit liability		
Actuarial gains (losses) arising from changes in demographic assumptions	2,411	(939)
Actuarial (losses) gains arising from changes in financial assumptions	(23,561)	3,939
Actuarial gains (losses) arising from experience adjustments	3,367	(7,238)
Benefits paid by the plan	(17,984)	(16,835)
Defined benefits obligation at December 31	**$ 397,046**	**241,363**

b) Expense recognized in profit or loss

The expense recognized in profit or loss for the Bank for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Past service costs	$ 173,595	17,458
Current service costs	8,079	-
Net interest of net defined benefit liability	9,776	7,536
Total	**$ 191,450**	**24,994**

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, 2017 and 2016 were as follows:

	For the years ended December 31, 2017	2016
Cumulative amount at January 1	$ (33,629)	(37,867)
Recognized during the period	20,011	4,238
Cumulative amount at December 31	**$ (13,618)**	**(33,629)**

d) Primary actuarial assumptions

	December 31, 2017		December 31, 2016	
	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%	1.625%
Expected rate of return on deposited fund	2.00%	1.625%	2.00%	1.625%
Yearly rate of decrease on account balance/utilization rate on subsidy for health examination and social networking	1.85%	33%~72%	1.70%	34%~71%
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 of December 31, 2017 and 2016 were as follows:

	Present value of the benefits obligation effects	
Favorable rates for employee deposits	**Increase 0.25%**	**Decrease 0.25%**
December 31, 2017		
Discount rate	$ (4,614)	4,831
Yearly rate of decrease on account balance	(4,894)	5,112
December 31, 2016		
Discount rate	(4,318)	4,523
Yearly rate of decrease on account balance	(4,574)	4,780

	Present value of the benefits obligation effects	
Other post- employment benefits	**Increase 0.25%**	**Decrease 0.25%**
December 31, 2017		
Discount rate	$ (7,020)	7,375
December 31, 2016		
Discount rate	(2,907)	3,084

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.

3) Defined benefits plan of overseas branches and subsidiaries

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

	December 31, 2017	December 31, 2016
Defined benefits plan	$ 361,753	334,233

For the years ended December 31, 2017 and 2016, expenses recognized by overseas branches and subsidiaries in profit and loss amounted to $128,871 and $144,574, respectively.

For the years ended December 31, 2017 and 2016, expenses recognized by overseas branches and subsidiaries in loss and profit amounted to $(53,403) and $11,661, respectively.

(aa) Income tax

(i) Income tax

For the years ended December 31, 2017 and 2016, the income tax expenses and related accounts were as follows:

	For the years ended December 31	
	2017	**2016**
Current income tax expenses	$ 4,958,155	4,917,718
Deferred income tax expenses	1,667,077	912,763
Income tax expenses	**$ 6,625,232**	**5,830,481**

For the years ended December 31, 2017 and 2016, the income tax (benefits) expenses recognized under other comprehensive income were as follows:

	For the years ended December 31	
	2017	**2016**
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement losses related to defined benefit plans	$ 32,078	7,008
Proportionate share of other comprehensive income from associates or joint ventures under the equity method	(969)	(378)
Total	**$ 31,109**	**6,630**
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences of overseas subsidiaries' financial reports translation	$ (431,418)	(107,581)
Unrealized valuation losses (gains) on available-for-sale financial assets	217,340	(302,445)
Proportionate share of other comprehensive income from associates or joint ventures under the equity method	29,791	-
Total	**$ (184,287)**	**(410,026)**

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

	For the years ended December 31	
	2017	**2016**
Net income before income tax	$ 36,648,391	28,926,678
Straight income tax	8,058,954	6,355,394
Effects of foreign and domestic tax rate spread	297,768	163,844
Tax-exempt income	(2,044,278)	(1,028,452)
Adjustments of prior year's income tax	(243,111)	343,251
10% surtax on undistributed earnings	3	-
Others	555,896	(3,556)
Income tax expense	**$ 6,625,232**	**5,830,481**

(ii) Deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the years ended December 31, 2017 and 2016 were as follows:

	For the year ended December 31, 2017				
	Beginning balance	**Recognize in profit and loss**	**Recognize in other comprehensive income**	**Others**	**Ending balance**
Proportion of (gains) losses recognized from the investments in associates and joint ventures under equity method	$ (138,496)	150,691	-	-	12,195
Unrealized losses (gains) on foreign exchange and derivative financila instruments	191,903	(597,891)	-	765	(405,223)
Allowance for credit losses (gains)	2,889,500	(437,768)	-	(72,839)	2,378,893
Unrealized valuation losses (gains) on available-for-sale financial assets	191,292	(32,750)	(217,340)	7,727	(51,071)
Impairment losses (gains) on assets	13,474	(1,209)	-	37	12,302
Employee benefits liability	491,406	(347)	-	(7,271)	483,788
Settlement compensation provision	159,614	(144,091)	-	-	15,523
Guarantee reserve	-	81,806	-	-	81,806
Exchange differences of overseas subsidiaries' financial reports translation	767,770	-	431,418	-	1,199,188
Defined benefit plan actuarial losses	254,943	-	(32,078)	(2,923)	219,942
Loss carryforward and others	2,954,454	(685,518)	-	(166,477)	2,102,459
Deferred tax assets (liabilities)- net	**$ 7,775,860**	**(1,667,077)**	**182,000**	**(240,981)**	**6,049,802**
Information disclosed in balance sheet:					
Deferred income tax assets	$ 8,145,564				6,907,914
Deferred tax liabilities	(369,704)				(858,112)
Total	**$ 7,775,860**				**6,049,802**

	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 financila instruments	127,656	62,394	-	1,853	191,903
Allowance for credit losses (gains)	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	**$ 8,360,156**	**(912,763)**	**403,018**	**(74,551)**	**7,775,860**
Information disclosed in balance sheet:					
Deferred income tax assets	$ 8,829,447				8,145,564
Deferred tax liabilities	(469,291)				(369,704)
Total	**$ 8,360,156**				**7,775,860**

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

	Latest year of assessment
CTBC Bank Co., Ltd.	2013(Note 1)
Chinatrust Bills Finance Corp. (dissolved)	2008
CTBC Insurance Brokers Co., Ltd. (dissolved)	2013 and 2015(Note 2)

Note 1: The Bank will decide whether to apply for recheck of 2013 income tax in the statutory period (within thirty days from the day after payment deadline).

Note 2: CTBC Insurance Brokers Co., Ltd. was liquidated after merged with the Bank in November, 2015 and the notice of assessment of the income tax for the year of 2015 has been acquired.

	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)	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	〃
〃	2008	〃

(ab) Imputation credit account

	December 31, 2017	December 31, 2016
(i) Imputation credit account balance	(Note)	$ 3,694

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

	For the year ended December 31, 2016(actual)	For the year ended December 31, 2015(actual)
Stock dividends	2.36 %	0.21 %

All the ending balance of undistributed earnings incurred after 1998.

(iii) 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.

Note: According to the amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, effective January 1, 2018, companies will no longer be required to establish, record, calculate, and distribute their ICA due to the abolishment of the imputation tax system.

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

(i) Capital stock

As of December 31, 2017, 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 $140,685,719, with 14,068,572 thousand common shares issued.

On May 26, 2017, the Bank's board of directors, on behalf of shareholders' meeting, decided a capital increase of 955,998 thousand shares from retained earnings which amounted to $9,559,984, with September 9, 2017 as its baseline for capital increase.

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.

(ii) Capital surplus

The components and sources of capital surplus were as follows:

	December 31, 2017	December 31, 2016
Additional paid-in capital－stock	$ 28,607,197	28,607,197
Share based payment transactions	1,184,264	1,184,264
Others	(2,773)	(2,773)
Total	**$ 29,788,688**	**29,788,688**

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.

(iii) Other equity interest

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

	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, 2017	$ (2,734,459)	(4,326,710)	(317,142)	(7,378,311)
Available-for-sale financial assets－net				
－Valuation adjustment	2,367,496	-	-	2,367,496
－Realized amount	(745,768)	-	-	(745,768)
Foreign currency translation difference				
－Exchange difference	-	(5,356,642)	-	(5,356,642)
－Gains on effective hedging instrument	-	1,182,591	-	1,182,591
Proportionate share of other comprehensive income from associates under equity method				
－Recognized amount	138,848	-	-	138,848
Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk				
－Recognized amount	-	-	(1,105,808)	(1,105,808)
December 31, 2017	**$ (973,883)**	**(8,500,761)**	**(1,422,950)**	**(10,897,594)**

	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, 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	**$ (2,734,459)**	**(4,326,710)**	**(317,142)**	**(7,378,311)**

(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 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 2016 earnings distribution of the Bank was approved by the board of directors, on behalf of shareholders' meeting on May 26, 2017, and stock dividend amounted to $9,559,984 was distributed.

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

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, 2017 and 2016, 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			
	2013	**2014**	**2015**	**2016**
Grant date	01.28.2014	02.06.2015	02.04.2016	01.25.2017
Grant number	192,778	239,965	225,964	186,774
Exercise period	12.31.2016	12.31.2017	12.31.2018	12.31.2019
Exercise price at grant date	20.07	20.35	14.92	17.82

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, 2017					
	Management stock appreciation rights plan for the years					
	2014		**2015**		**2016**	
	Number	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**
Outstanding at the beginning of the period	292,137	15.32	249,192	12.57	186,774	16.96
Granted during the period	14,728	15.32	12,589	12.57	9,457	16.96
Forfeited during the period	21,000	15.32	1,746	12.57	945	16.96
Exercised during the period	285,866	15.32	1,631	12.57	731	16.96
Expired during the period	-	15.32	-	12.57	-	16.96
Outstanding at the end of the period	-	15.32	258,404	12.57	194,556	16.96
Exercisable at the end of the period	-	15.32	-	12.57	-	16.96

	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

For the year ended December 31, 2017, the weighted-average stock prices executed under SARs for 2014, 2015 and 2016 were $20.65, $18.90 and $18.88 (in NTD), respectively.

As of December 31, 2017, the weighted average remaining durations of outstanding shares under SARs for 2015 and 2016 were 1 and 2 years, respectively.

On January 20, 2018, the Bank's board of directors has passed Management Stock Appreciation Rights Plan for the Year 2017. 187,370 units of share based payment have been granted, with the execution price of $21.39 (in dollars). On the execution date of December 31, 2020, 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 2017.

(af) EPS

	For the years ended December 31	
	2017	2016
Net income attributable to common stockholders	$ 30,021,451	23,092,164
Weighted-average outstanding shares of common stock (in thousands)	14,068,572	13,929,392
Basic EPS (in dollars)	$ 2.13	1.66

Retroactive adjustments are applied to the Bank's basic EPS for the year ended December 31, 2016.

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.

(ag) Net interest income

	For the years ended December 31	
	2017	**2016**
Interest income		
Loan	$ 52,581,376	51,744,920
Revolving credit	2,605,871	2,472,973
Securities	8,663,482	7,524,518
Due from Central Bank	398,476	402,776
Due from banks and call loans to banks	2,351,976	2,054,564
Hedging derivatives	97,660	115,968
Others	648,849	949,986
Subtotal	67,347,690	65,265,705
Interest expense		
Deposit	15,271,121	14,482,549
Due to other banks	788,729	478,790
Borrowings and other financing	2,518,763	2,550,610
Hedging derivatives	58,610	67,321
Others	537,085	363,643
Subtotal	19,174,308	17,942,913
Total	**$ 48,173,382**	**47,322,792**

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	
	2017	**2016**
Commission income		
Credit card business	$ 5,129,315	5,427,271
Wealth management business	6,026,841	4,399,085
Corporate business	5,646,830	5,858,427
Banking business	4,790,848	4,694,387
Insurance business	8,600,310	10,250,348
Lottery business	4,897,697	4,848,080
Others	71,900	41,304
Total commission income	35,163,741	35,518,902
Service fee		
Credit card business	437,121	344,542
Wealth management business	162,241	148,424
Corporate business	245,786	285,652
Banking business	2,026,012	2,143,231
Lottery business	383,975	391,321
Others	18,575	18,880
Total service fee	3,273,710	3,332,050
Total	**$ 31,890,031**	**32,186,852**

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

	For the years ended December 31	
	2017	**2016**
Disposal gains (losses)		
Commercial paper	$ 4,869	8,144
Treasury bills	1,612	274
Government bonds	(455,895)	129,487
Corporate bonds	141,575	127,932
Financial debentures	90,142	71,204
Convertible bonds	15,065	40,283
Beneficiary certificates	(1,533)	(14,282)
Assets-backed commercial paper	(221,567)	-
Listed and OTC securities	200,417	(71,054)
Other securities and bonds	13,902	2,949
Derivative financial instruments	3,740,051	9,717,160
Borrowed securities	(12,592)	(2,493)
Subtotal	3,516,046	10,009,604
Valuation gains (losses)		
Commercial paper	(241)	(19,481)
Treasury bills	141	(158)
Government bonds	520,340	(686,699)
Corporate bonds	8,129	(37,480)
Financial debentures	(1,518,241)	1,353,372
Convertible bonds	45,474	149,690
Assets-backed commercial paper	(55,468)	-
Listed and OTC securities	96,002	(2,484)
Other securities and bonds	(15,064)	37,508
Derivative financial instruments	5,103,558	(2,936,421)
Beneficiary certificates	607	1,839
Fair value hedge adjustment	(21,301)	(43,089)
Convertible bonds	(1,444)	995
Subtotal	4,162,492	(2,182,408)
Dividend income	70,921	30,491
Interest income	1,379,977	674,181
Interest expense	(1,478,048)	(1,807,584)
Total	**$ 7,651,388**	**6,724,284**

(aj) Employee benefits expenses

	For the years ended December 31	
	2017	**2016**
Salary expenses	$ 23,279,945	22,458,996
Insurance expenses	1,762,349	1,772,822
Share based payment transactions	2,335,230	1,508,145
Retirement expenses		
Defined contribution plan	689,526	650,504
Defined benefits plan	484,260	348,475
Other personnel expenses	1,420,218	1,391,748
Total	**$ 29,971,528**	**28,130,690**

As of December 31, 2017 and 2016, numbers of the Bank and its subsidiaries’ employees were 14,537 and 14,225, respectively.

(ak) Depreciation and amortization expenses

	For the years ended December 31	
	2017	**2016**
Housing	$ 1,012,472	984,903
General equipment	507,877	476,702
Transportation equipment	28,384	37,694
Information equipment	626,656	634,006
Subtotal of depreciation expenses	2,175,389	2,133,305
Amortization of information software	1,095,088	1,091,115
Bond issuance expenses and others	1,031	1,032
Total	**$ 3,271,508**	**3,225,452**

(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, 2017 and 2016 were $17,083 and $13,498, respectively. The actual compensations of employee of 2016 amounted to $13,472 with $26 different from the amount recognized in the annual financial report of 2016. The difference is regarded as a change of accounting estimates and will be adjusted in profit or loss in the fiscal year of 2017. Relevant information is available on Market Observation Post System.

(am) Other general and administrative expenses

	For the years ended December 31	
	2017	**2016**
Site usage and general equipment expenses	$ 4,921,141	5,093,325
Information equipment expenses	1,885,344	1,794,910
General administration expenses	4,398,525	4,679,218
Marketing and promotion expenses	2,614,246	2,888,577
Other expenses	4,496,819	4,207,162
Business tax	2,995,311	3,160,080
Total	**$ 21,311,386**	**21,823,272**

(an) Financial instruments

(i) 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 resell 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.

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 financial assets, 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.

   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.

	December 31, 2017	
Financial assets	**Book value**	**Fair value**
Held-to-maturity financial assets－net	$ 643,909,213	646,332,470

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

(ii) 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:

i) 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 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.

ii) The quoted market price of the same or identical financial instruments in an inactive market.

iii) 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).

iv) 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).

2) Fair value hierarchy information on financial instruments

Assets and Liabilities	December 31, 2017 Total	Level 1	Level 2	Level 3
Instruments measured at fair value				
Instruments measured at fair value on a recurring basis				
Non-derivative financial instruments assets and liabilities				
Assets:				
Financial assets measured at fair value through profit or loss				
Financial assets held for trading				
Investment in stocks	$ 1,291,125	1,291,125	-	-
Investment in debt instruments	89,949,111	800,133	89,148,978	-
Others	123,339	123,339	-	-
Designated as financial assets measured at fair value through profit or loss				
Investment in debt instruments	17,705,947	14,741,412	2,964,497	38
Others	1,145,528	-	-	1,145,528
Available-for-sale financial assets－net				
Investment in stocks	4,675,095	4,675,095	-	-
Investment in debt instruments	205,375,741	69,466,541	135,278,223	630,977
Others	4,901,448	4,123,437	778,011	-
Liabilities:				
Designated as financial liabilities measured at fair value through profit or loss	34,090,353	-	-	34,090,353
Derivative financial instruments assets and liabilities				
Assets:				
Financial assets measured at fair value through profit or loss	$ 29,973,952	100,633	29,534,246	339,073
Derivative financial assets－hedging	137,010	-	137,010	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	33,340,291	152,053	32,791,640	396,598
Derivative financial liabilities－hedging	16,865	-	16,865	-
Instruments not measured at fair value				
Held-to-maturity financial assets－net	646,332,470	591,222,881	55,109,589	-
Other financial assets- Investment in debt instruments without active markets	12,281,846	-	-	12,281,846
Investment property	3,326,634	-	-	3,326,634

Assets and Liabilities	December 31, 2016 Total	Level 1	Level 2	Level 3
Instruments measured at fair value				
Instruments measured at fair value on a recurring basis				
Non-derivative financial instruments assets and liabilities				
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
Derivative financial instruments assets and liabilities				
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	-
Instruments not measured at fair value				
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

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 December 31, 2017 and 2016.

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

	For the year ended December 31, 2017									
				Current increase			Current decrease			
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 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	Ending balance
Financial assets measured at fair value through profit or loss										
Financial assets held for trading	$ 6,357,781	(3,391,255)	-	386,657	-	58,216	3,072,217	109	-	339,073
Designated as financial assets measured at fair value through profit or loss	1,276,517	(15,066)	(49,660)	-	-	-	66,225	-	-	1,145,566
Available-for-sale financial assets－net	1,219,146	(3,287)	(291,373)	-	-	-	293,509	-	-	630,977
Total	$ **8,853,444**	**(3,409,608)**	**(341,033)**	**386,657**	**-**	**58,216**	**3,431,951**	**109**	**-**	**2,115,616**

Items	For the year ended December 31, 2016									
				Current increase			Current decrease			
	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 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	Ending balance
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

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. This transfer out of Level 3 to Level 2 was due to a switch of valuation approach.

Unrealized gains (losses) associated with assets as of December 31, 2017 and 2016 which were recognized in current net income shown in the above table were $931,747 and $(5,782,178), respectively.

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

Items	For the year ended December 31, 2017									
				Current increase			Current decrease			
	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 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 assets and out of Level 3 of financial liabilities	Ending balance
Financial liabilities measured at fair value through profit or loss										
Financial liabilities held for trading	$ 6,913,541	(3,790,401)	-	368,765	-	58,216	3,083,785	69,738	-	396,598
Financial liabilities designated at fair value through profit or loss	28,178,587	(566,682)	1,105,808	5,372,640	-	-	-	-	-	34,090,353
Total	$ 35,092,128	(4,357,083)	1,105,808	5,741,405	-	58,216	3,083,785	69,738	-	34,486,951

Items	For the year ended December 31, 2016									
				Current increase			Current decrease			
	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 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 assets and out of Level 3 of financial liabilities	Ending balance
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

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. This transfer out of Level 3 to Level 2 was due to a switch of valuation approach.

Unrealized gains (losses) associated with liabilities as of December 31, 2017 and 2016 which were recognized in current net income shown in the above table were $(1,970,974) and $5,764,203, respectively.

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**
December 31, 2017		
Liabilities		
Financial liabilities measured at fair value through profit or loss		
Designated as financial liabilities measured at fair value through profit or loss	$ 55,978	(55,881)
December 31, 2016		
Liabilities		
Financial liabilities measured at fair value through profit or loss		
Designated as financial liabilities measured at fair value through profit or loss	$ 51,828	(51,674)

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

Quantitative information about the significant unobservable inputs was as follows:

	December 31, 2017				
	Fair value	**Valuation techniques**	**Key unobservable inputs**	**Range of inputs**	**The relation between inputs and fair value**
Recurring fair value measurements					
Non-derivative financial instruments assets and liabilities					
Assets:					
Financial assets measured at fair value through profit or loss					
Designated as financial assets measured at fair value through profit or loss	$ 1,145,566	Discounted cash flow model	Default rate	8.72%~18.92%	The higher default rate, the lower fair value
Available-for-sale financial assets－net					
Investment in debt instruments	630,977	Discounted cash flow model	Interest rate	0.76%	The higher interest rate, the lower fair value
Liabilities:					
Designated as financial liabilities measured at fair value through profit or loss	34,090,353	Interest rate option pricing model	Credit spread	1.10%~1.40%	The higher credit spread, the lower fair value
Derivative financial instruments assets and liabilities					
Assets:					
Financial assets measured at fair value through profit or loss	339,073	Interest rate option pricing model	Interest rate correlation coefficient	59%~96%	The higher correlation coefficient, the lower fair value
Liabilities:					
Financial liabilities measured at fair value through profit or loss	396,598	Interest rate option pricing model	Interest rate correlation coefficient	59%~96%	The higher correlation coefficient, the higher fair value

	December 31, 2016				
	Fair value	**Valuation techniques**	**Key unobservable inputs**	**Range of inputs**	**The relation between inputs and fair value**
Recurring fair value measurements					
Non-derivative financial instruments assets and liabilities					
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 higher interest rate, the lower fair value
Liabilities:					
Designated as financial liabilities measured at fair value through profit or loss	28,178,587	Interest rate option pricing model	Credit spread	1.32%~1.88%	The higher credit spread, the lower fair value
Derivative financial instruments assets and liabilities					
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

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.

(iii) For the years ended December 31, 2017 and 2016, unrealized gains (losses) due to the estimated change of fair value recognized by the Bank and its subsidiaries were $3,543,457 and $(1,453,151), respectively.

(iv) 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, Risk Management Committee, Senior Management and Global Risk Management Group. The scope of their authorities illustrates as follows:

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.

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.

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

i) 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.

ii) Market Risk Management Procedure and Measurement

1. 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 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.

2. 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.

iii) 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.

iv) Interest Rate Risk Management

1. 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.

2. 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.

3. 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

Yield curve parallel shift of +0.01%	Currency	December 31, 2017	December 31, 2016
	CNY	$ (676)	(126)
	EUR	6	(75)
	HKD	139	(226)
	JPY	(21)	(5)
	NTD	414	(761)
	USD	(3,345)	3,281
	Others	(378)	(501)

v) Foreign Exchange Risk

1. 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.

2. 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.

3. 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.

Unit：In Thousands of New Taiwan Dollars

Underlying currency upward movement by 1%	Currency	December 31, 2017	December 31, 2016
	AUD	$ (527)	(229)
	CNY	4,434	(24,122)
	EUR	2,670	(408)
	GBP	85	74
	HKD	(10,605)	(2,628)
	JPY	5,562	(4,044)
	KRW	32	(3,063)
	USD	(23,920)	30,406
	Others	6,643	3,554

vi) Other Risk Factor Sensitivities

1. 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.

2. 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.

3. 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, 2017**	**December 31, 2016**
Equity Factor Sensitivity			
Stock price or index upward movement by 1%	Taiwan	$ 9,824	455
	Others	1,058	316
Commodity Factor Sensitivity			
Commodity price upward movement by 1%	Crude oil	-	(436)
	Gold	44	4
	Copper	-	40
Credit Spread Factor Sensitivity			
Credit spread upward shift by 0.01%		(32)	120

b) Management Mechanism of Non-Trading Purpose Investment Portfolio

i) Management of Non-Trading Purpose Interest Rate Risk

1. Definition of Non-Trading Purpose Interest Rate Risk

Non-trading purpose interest rate risk of the Bank and its subsidiaries refers 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.

2. 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.

3. 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：

      i. 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△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△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.

ii. 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, and aims to keep the impact on earnings or equity within the Bank and its subsidiaries risk appetite.

4. 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, collaborates with 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.

ii) Management of Non-Trading Purpose Foreign Exchange Rate Risk

1. 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 refers 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 foreign-currency gains/ losses of money market swap.

2. Management Objective of Non-Trading Purpose Foreign Exchange Rate Risk

   The Bank and its subsidiaries' management objective of non-trading purpose FX risk aims to keep FX exposures within the risk appetite by the authorities, responsibilities and management procedures defined in the Policy.

3. 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 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.

4. Non-Trading Purpose Foreign Exchange Rate Risk monitoring and reporting

   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, collaborates with business unit to submit the action plan to the limit authority at the level for approval, and traces the effectiveness of the action plan.

iii) Management of Non-Trading Purpose Equity Risk

1. 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.

2. Management Objective of Non-Trading Purpose Equity Risk

   The Bank and its subsidiaries' management objective of non-trading purpose equity risk aims to keep equity exposures within the risk appetite and control severe impact on profit or owner equity by the authorities, responsibilities and management procedure defined in the Policy.

3. 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.

4. 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, collaborates with business unit to submit the action plan to the limit authority for approval, and traces the effectiveness of the action plan.

iv) Factor Sensitivity Analysis

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

December 31, 2017			
		Amount	
Risk Items	Movement	Profit and Loss	Equity
Interest Rate Risk	Interest rate curve shift up 1bp	101,498	(52,993)
	Interest rate curve shift down 1bp	(101,498)	52,993
Foreign Exchange Rate Risk	Foreign currency appreciate 1% against NTD	(12)	-
	Foreign currency depreciate 1% against NTD	12	-
Equity Price Risk	Equity price appreciate 1%	-	95,778
	Equity price depreciate 1%	-	(95,778)

December 31, 2016			
		Amount	
Risk Items	Movement	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)

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.

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, 2017		
	Foreign currency	**Spot rate**	**NTD amount**
Financial assets			
Monetary items			
USD	$ 24,626,329	29.8480	735,046,671
JPY	2,687,351,868	0.2649	711,879,510
EUR	1,152,543	35.6833	41,126,533
AUD	1,463,718	23.2576	34,042,573
CAD	468,053	23.7757	11,128,284
Non-monetary items			
USD	33,228	29.8480	991,786
JPY	24,943,526	0.2649	6,607,540
Financial liabilities			
Monetary items			
USD	$ 24,109,706	29.8480	719,626,500
JPY	2,603,704,413	0.2649	689,721,299
EUR	1,156,359	35.6833	41,262,703
AUD	1,459,961	23.2576	33,955,180
CAD	406,818	23.7757	9,672,379

	December 31, 2016		
	Foreign currency	Spot rate	NTD amount
Financial assets			
Monetary items			
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
Non-monetary items			
USD	26,808	32.2790	865,346
JPY	11,912,897	0.2757	3,284,386
Financial liabilities			
Monetary items			
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

d) Disclosure items required by the “ Regulations Governing the Preparation of Financial Reports by Public Banks”

i) Interest rate sensitivity information

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

December 31, 2017

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	$ 1,557,616,121	182,796,327	88,148,239	109,057,285	1,937,617,972
Interest rate sensitive liabilities	521,428,782	952,324,513	119,522,340	65,673,702	1,658,949,337
Interest rate sensitivity gap	1,036,187,339	(769,528,186)	(31,374,101)	43,383,583	278,668,635
Net worth					279,632,639
Ratio of interest rate sensitive assets to liabilities (%)					116.80
Ratio of interest rate sensitivity gap to net worth (%)					99.66

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

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)

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

December 31, 2017

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	$ 11,837,889	879,863	527,733	2,514,784	15,760,269
Interest rate sensitive liabilities	7,829,584	12,429,061	1,530,551	1,236,530	23,025,726
Interest rate sensitivity gap	4,008,305	(11,549,198)	(1,002,818)	1,278,254	(7,265,457)
Net worth					9,368,555
Ratio of interest rate sensitive assets to liabilities (%)					68.45
Ratio of interest rate sensitivity gap to net worth (%)					(77.55)

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)

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)

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

i) Credit Risk Management Process

1. 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.

2. 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.

3. 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 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 appraisement 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.

4. 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.

ii) Measurement of Credit Risk

1. 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 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.

2. 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

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) 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.

vi) 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.

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.

i) By Industry

	December 31, 2017								
	Individual Clients	Service	Public Sector	High Tech	Real Estate	Manufacturing	Financial Institution	Others	Total
Receivables—Credit card	$ 72,061,570	-	-	-	-	-	-	-	72,061,570
Receivables—Factoring	-	1,323,926	176,521	8,103,581	-	2,133,625	5,013,123	-	16,750,776
Loans									
-Consumer loans	676,626,645	-	-	-	-	-	-	-	676,626,645
-Corporate loans	62,890,944	65,598,962	153,321,103	61,265,240	64,944,730	85,037,739	13,370,059	-	506,428,777
-Micro-business loans	4,861,197	2,523,041	-	535,305	690,400	1,161,981	74,756	258,375	10,105,055
-Foreign currency loans	257,209,955	243,136,260	18,456,318	48,567,709	143,646,499	157,685,307	91,820,768	9,017,258	969,540,074
-Non-accrual loans	3,896,850	3,156,666	-	464,609	130,107	836,875	247	43,883	8,529,237
-Adjustment of discount and premium	(169,913)	(565,941)	(218)	(60,531)	(236,953)	(43,837)	(41,966)	(240,254)	(1,359,613)
Other financial assets	91,962	-	-	-	-	4,336	-	-	96,298
Total	**$ 1,077,469,210**	**315,172,914**	**171,953,724**	**118,875,913**	**209,174,783**	**246,816,026**	**110,236,987**	**9,079,262**	**2,258,778,819**

	December 31, 2017				
	Public Sector	Corporate	Financial Institution	Individual Clients	Total
Available for sale financial assets－debt securities	$ 86,512,413	22,338,048	87,850,166	8,769,526	205,470,153
Derivative financial assets－hedging	64,276	-	72,734	-	137,010
Held-to-maturity financial assets	588,147,448	24,231,522	31,542,113	-	643,921,083
Other financial assets－debt investment without active market	-	12,306,581	-	-	12,306,581
Total	**$ 674,724,137**	**58,876,151**	**119,465,013**	**8,769,526**	**861,834,827**

	December 31, 2016								
	Individual Clients	Service	Public Sector	High Tech	Real Estate	Manufacturing	Financial Institution	Others	Total
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	$ 1,025,590,952	317,602,363	140,111,643	128,910,022	195,175,447	239,166,818	101,141,556	9,510,622	2,157,209,423

	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	$ 585,053,274	36,707,582	96,708,354	9,541,355	728,010,565

ii) By Area

	December 31, 2017				
	Taiwan	North America	Asia (excluding Taiwan)	Others	Total
Available for sale financial assets－debt securities	$ 42,212,177	41,453,125	100,281,206	21,523,645	205,470,153
Derivative financial assets－hedging	126,274	-	5,276	5,460	137,010
Receivables－credit card	72,061,570	-	-	-	72,061,570
Receivables－factoring	4,990,254	1,363,062	7,791,414	2,606,046	16,750,776
Loans					
Consumer finance					
－Mortgage loans	567,562,077	-	-	-	567,562,077
－Automobile loans	532	-	-	-	532
－Consumer loans	109,064,036	-	-	-	109,064,036
Corporate finance					
－Corporate loans	500,672,570	3,500,000	2,256,207	-	506,428,777
－Micro-business loans	10,101,628	-	3,427	-	10,105,055
Foreign currency loans	60,133,554	115,646,068	770,683,114	23,077,338	969,540,074
Non-accrual loans	2,031,945	133,026	6,364,266	-	8,529,237
Adjustment of discount and premium	(308,046)	(30,407)	(763,908)	(257,252)	(1,359,613)
Held-to-maturity financial assets	549,995,739	36,915,238	42,298,662	14,711,444	643,921,083
Other financial assets	92,231	-	12,310,648	-	12,402,879
Total	$ 1,918,736,541	198,980,112	941,230,312	61,666,681	3,120,613,646

	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	**$ 1,713,354,681**	**196,025,276**	**923,407,807**	**52,432,224**	**2,885,219,988**

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.

	December 31, 2017											
	Neither past due nor impaired				Past due not impaired							
Item	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	$ 147,979,907	57,336,301	-	205,316,208	-	-	-	-	153,945	-	94,412	205,375,741
Derivative financial assets－hedging	137,146	-	(136)	137,010	-	-	-	-	-	-	-	137,010
Receivables－credit card	57,572,492	8,451,904	2,023,066	68,047,462	64,246	132,368	562,337	758,951	-	3,255,157	1,115,323	70,946,247
Receivables－factoring	7,180,302	8,091,740	720,450	15,992,492	20,779	87,200	722	108,701	649,583	-	543,685	16,207,091
Loans												
Consumer finance												
－Mortgage loans	554,150,218	3,887,591	571,825	558,609,634	2,631,334	1,018,031	599,707	4,249,072	-	4,703,371	368,239	567,193,838
－Automobile loans	-	-	-	-	-	-	-	-	-	532	31	501
－Consumer loans	77,522,567	16,899,287	3,655,763	98,077,617	350,297	636,077	1,774,884	2,761,258	-	8,225,161	2,675,154	106,388,882
Corporate finance												
－Corporate loans	246,271,654	201,424,627	55,899,411	503,595,692	-	202,770	127,734	330,504	2,502,581	-	634,858	505,793,919
－Micro-business loans	2,566,254	5,558,083	1,720,740	9,845,077	3,262	35,032	6,304	44,598	77,215	138,165	26,447	10,078,608
Foreign currency loans	399,357,099	417,567,965	141,487,826	958,412,890	515,129	1,122,419	2,309,865	3,947,413	5,930,603	1,249,168	4,475,943	965,064,131
Non-accrual loans	-	-	-	-	-	-	957	957	4,810,093	3,718,187	4,655,695	3,873,542
Adjustment of discount and premium	(435,556)	(712,515)	(214,536)	(1,362,607)	574	2,393	(3,817)	(850)	(409)	4,253	(835)	(1,358,778)
Held-to-maturity financial assets－net	565,340,942	78,580,141	-	643,921,083	-	-	-	-	-	-	11,870	643,909,213
Other financial assets	6,537,417	3,715,560	2,053,604	12,306,581	-	-	-	-	4,336	91,962	103,789	12,299,090
Total	$ 2,064,180,442	800,800,684	207,918,013	3,072,899,139	3,585,621	3,236,290	5,378,693	12,200,604	14,127,947	21,385,956	14,704,611	3,105,909,035

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

	December 31, 2016											
	Neither past due nor impaired				Past due not impaired							
Item	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.

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, 2017				
	Up to 1 month	1-2 months	2-3 months	Over 3 months	Total
Receivables					
-Credit cards	$ 570,913	126,381	61,657	-	758,951
-Factoring	106,210	1,816	675	-	108,701
Loans					
Consumer finance					
-Mortgage loans	4,111,896	112,181	24,995	-	4,249,072
-Consumer loans	2,341,410	298,279	121,569	-	2,761,258
Corporate finance					
-Corporate loans	329,871	633	-	-	330,504
-Micro-business loans	43,431	1,167	-	-	44,598
Foreign currency loans	2,807,661	899,152	217,141	23,459	3,947,413
Non-accrual loans	-	-	957	-	957
Adjustment of discount and premium	2,970	(3,789)	(31)	-	(850)
Total	**$ 10,314,362**	**1,435,820**	**426,963**	**23,459**	**12,200,604**

	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**

i) Impairment analysis on impaired financial assets

	December 31, 2017				
	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	$ 153,945	-	94,412	-	59,533
Receivables					
-Credit cards	-	3,255,157	-	424,797	2,830,360
-Factoring	649,583	-	-	526,663	122,920
Loans					
Consumer finance					
-Mortgage loans	-	4,703,371	-	230,544	4,472,827
-Automobile loans	-	532	-	31	501
-Consumer loans	-	8,225,161	-	1,122,561	7,102,600
Corporate finance					
-Corporate loans	2,502,581	-	323,002	-	2,179,579
-Micro-business loans	77,215	138,165	6,628	736	208,016
Foreign currency loans	5,930,603	1,249,168	915,181	101,542	6,163,048
Non-accrual loans	4,810,093	3,718,187	2,869,595	1,786,100	3,872,585
Adjustment of discount and premium	(409)	4,253	-	-	3,844
Other financial assets	4,336	91,962	269	78,785	17,244
Total	**$ 14,127,947**	**21,385,956**	**4,209,087**	**4,271,759**	**27,033,057**

	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**

j) Foreclosed properties

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

k) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

i) Asset quality of the Bank and its subsidiaries' non-performing loans and overdue receivables

1. Asset quality of the Bank and its subsidiaries

Unit：In Thousands of New Taiwan Dollars，%

Categories/ Items			Non-performing loans	Total loans	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
Month/ Year			**December 31, 2017**				
Corporate finance	Secured		2,256,677	440,309,874	0.51 %	14,781,239	297.55 %
	Unsecured (Note 10)		2,710,908	792,624,652	0.34 %		
Consumer finance	Residential mortgages		1,739,911	749,216,775	0.23 %	6,695,029	384.79 %
	Cash cards		47,264	2,487,566	1.90 %	104,823	221.78 %
	Micro credit loans	Original	1,774,160	106,744,413	1.66 %	4,852,285	273.50 %
		Purchase	-	273,766	- %	2,736	- %
	Others	Secured	157,078	74,391,755	0.21 %	788,876	229.72 %
		Unsecured	186,332	5,180,987	3.60 %		
Total loan business			8,872,330	2,171,229,788	0.41 %	27,224,988	306.85 %
			Overdue receivables	**Balance of receivables**	**Delinquency ratio**	**Allowance for credit losses**	**Coverage ratio**
Credit cards business			88,430	72,153,532	0.12 %	1,194,514	1,350.80 %
Without recourse factoring			-	16,750,776	- %	687,688	- %

Categories/ Items			Non-performing loans	Total loans	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
Month/ Year			**December 31, 2016**				
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	- %

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.

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, 2017		December 31, 2016	
	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)	63,640	124,658	83,339	103,480
Pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2)	719,490	69,932	707,640	71,413
Total	783,130	194,590	790,979	174,893

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".

Note 2: In accordance with Jin Kuan Yin (1) Zi No. 09700318940, dated September 15, 2008, and with Jin Kuan Yin No. 10500134790, dated September 20, 2016, a bank is required to make supplemental disclosure of credit information once debtors apply for pre negotiation, pre-meditation relief and liquidation under the " Consumer Debt Clearance Act."

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

ii) Concentration of the Bank's credit extensions

Unit：In Thousands of New Taiwan Dollars，%

December 31, 2017			
Ranking	Enterprise group by industry sector	Credit amount	Credit amount/ stockholders' equity (%)
1	A group. Cement and concrete products manufacturing	12,576,050	4.50 %
2	B group. Other unclassified financial service	9,497,867	3.40 %
3	C group. Iron and steel smelting	9,271,347	3.32 %
4	D group. Liquid crystal panel and components manufacturing	6,917,943	2.47 %
5	E group. Print circuits manufacturing	6,645,032	2.38 %
6	F group. Cable telecommunications	6,457,217	2.31 %
7	G group. Consulting group	5,934,728	2.12 %
8	H group. Other unclassified financial service	5,786,462	2.07 %
9	I group. Wires and cables manufacturing	5,572,616	1.99 %
10	J group. Cement manufacturing	5,283,902	1.89 %

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

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 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, 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.

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:

i) 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 to keep the interest risk exposure within the risk appetite.

ii) Maintain adequate stock of liquid assets to meet regulatory requirements and to fulfill the obligations.

iii) Diversify funding instruments and counterparties in order to prevent overdependence on specific funding sources.

iv) 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 follows:

i) Establish the thorough liquidity risk measurement for measuring liquidity risks. The common methods are as follows:

1. Maximum Cumulative Outflow (MCO): Analyzing maturity mismatch to capture each time bucket cash flow changes, which serve as an early warning of liquidity risk.

2. 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.

ii) 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.

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, 2017					
	0~30 days	**31~90 days**	**91~180 days**	**181days~1year**	**Over 1 year**	**Total**
Deposits from Central Bank and other banks	$ 57,663,783	9,411,532	4,274,955	3,524,513	-	74,874,783
Due to Central Bank and other banks	857,875	110,035	596,960	2,224,631	534,375	4,323,876
Non-derivative financial liabilities measured at fair value through profit or loss	-	-	-	-	34,090,353	34,090,353
Securities sold under repurchase agreements	48,194,371	14,548,525	-	-	-	62,742,896
Payables	42,200,075	8,854,702	8,604,827	13,660,028	90,992,800	164,312,432
Current income tax liabilities	-	-	2,736,000	-	-	2,736,000
Deposits and remittances	2,140,109,921	249,966,851	212,303,218	333,922,425	45,542,801	2,981,845,216
Financial debentures	-	291,390	1,086,090	8,900,000	59,000,000	69,277,480
Other financial liabilities	68,578,270	5,094,973	7,792,305	14,171,977	37,123,631	132,761,156

	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

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.

f) Maturity analysis of derivatives liabilities

i) 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, 2017					
	0~30 days	**31~90 days**	**91~180 days**	**181days~1year**	**Over 1 year**	**Total**
Derivative financial liabilities measured at fair value through profit or loss						
－Foreign exchange derivatives	$ 3,253,055	-	-	-	-	3,253,055
－Interest rate derivatives	12,349,226	-	-	-	-	12,349,226
－Other derivatives	61,927	-	-	-	-	61,927
Derivative financial liabilities－hedging						
－Foreign exchange derivatives	1,346,340	1,792,366	-	-	-	3,138,706
－Interest rate derivatives	14,720	-	15,081	31,126	-	60,927
Total	**$ 17,025,268**	**1,792,366**	**15,081**	**31,126**	**-**	**18,863,841**

	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 or 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**

ii) 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, 2017					
	0~30 days	**31~90 days**	**91~180 days**	**181days~1year**	**Over 1 year**	**Total**
Derivative financial instruments measured at fair value through profit or loss						
－Foreign exchange derivatives						
－Cash outflow	$ 965,995,405	752,206,388	414,588,980	296,090,922	11,597,194	2,440,478,889
－Cash inflow	972,912,315	751,277,993	414,703,438	296,852,032	11,587,671	2,447,333,449
Derivative financial liabilities－hedging						
－Foreign exchange derivatives						
－Cash outflow	28,722,542	-	-	-	-	28,722,542
－Cash inflow	28,803,338	-	-	-	-	28,803,338
Cash outflow subtotal	994,717,947	752,206,388	414,588,980	296,090,922	11,597,194	2,469,201,431
Cash inflow subtotal	1,001,715,653	751,277,993	414,703,438	296,852,032	11,587,671	2,476,136,787
Net cash flow	**$ 6,997,706**	**(928,395)**	**114,458**	**761,110**	**(9,523)**	**6,935,356**

	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 or 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**

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, 2017					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Financial guarantee contracts	$ 61,493,801	-	-	-	-	61,493,801
Unused amount of irrevocable loan commitments	113,068,310	-	-	-	-	113,068,310
Unused amount of irrevocable letter of credit	22,091,818	-	-	-	-	22,091,818
Unused amount of irrevocable credit card commitments	513,552,736	-	-	-	-	513,552,736
Total	**$ 710,206,665**	**-**	**-**	**-**	**-**	**710,206,665**

	December 31, 2016					
	0~30 days	**31~90 days**	**91~180 days**	**181days~1year**	**Over 1 year**	**Total**
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	$ **789,167,153**	-	-	-	-	**789,167,153**

h) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

i) Maturity analysis of the Bank's assets and liabilities for New Taiwan Dollars

December 31, 2017

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	$ 2,546,270	429,709	248,084	278,639	249,735	228,490	1,111,613
Major cash outflow at maturity	2,758,713	193,180	252,822	434,068	363,856	537,122	977,665
Gap	(212,443)	236,529	(4,738)	(155,429)	(114,121)	(308,632)	133,948

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

Note: The above tables refer to the Bank's overall position denominated in NTD.

ii) Maturity analysis of the Bank's assets and liabilities for U.S. Dollars

December 31, 2017

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	$ 67,177,780	24,513,908	18,842,741	8,892,652	7,089,084	7,839,395
Major cash outflow at maturity	82,067,818	32,627,180	17,946,067	10,199,762	10,493,601	10,801,208
Gap	(14,890,038)	(8,113,272)	896,674	(1,307,110)	(3,404,517)	(2,961,813)

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)

Note: The above tables refer to the Bank's overall position denominated in USD.

iii) Maturity analysis of the Bank's overseas branches' assets and liabilities for U.S. Dollars

December 31, 2017

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	$ 32,045,978	11,377,225	9,238,702	4,204,286	3,897,599	3,328,166
Major cash outflow at maturity	40,783,615	20,685,327	7,544,444	4,308,722	4,798,902	3,446,220
Gap	(8,737,637)	(9,308,102)	1,694,258	(104,436)	(901,303)	(118,054)

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)

(v) 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.

	December 31, 2017				
Types of financial assets	Carrying amount of transferred financial assets	Carrying amount of associated financial liabilities	Fair value of transferred financial assets	Fair value of associated financial liabilities	Net fair value
Financial assets measured at fair value through profit or loss					
Repurchase agreement	$ 14,987,442	14,515,464	14,987,442	14,515,464	471,978
Available-for-sale financial assets					
Repurchase agreement	482,058	451,536	482,058	451,536	30,521
Securities lending segment	31,549,510	30,656,153	31,549,510	30,656,153	893,357
Held-to-maturity financial assets					
Repurchase agreement	47,905,315	47,775,896	48,917,076	47,775,896	1,141,180

	December 31, 2016				
Types of financial assets	Carrying amount of transferred financial assets	Carrying amount of associated financial liabilities	Fair value of transferred financial assets	Fair value of associated financial liabilities	Net fair value
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

(vi) 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, 2017

Financial assets that are offset, have an exercisable master netting arrangement or similar agreement

	Gross amounts of recognized financial assets (a)	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): Financial instruments (Note)	Amounts not off set in the balance sheet (d): Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial assets	$ 30,110,962	-	30,110,962	21,209,902	5,220,341	3,680,719

December 31, 2017

Financial liabilities that are offset, have an exercisable master netting arrangement or similar agreement

	Gross amounts of recognized financial liabilities (a)	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): Financial instruments (Note)	Amounts not off set in the balance sheet (d): Cash collateral pledged	Net amount (e)=(c)-(d)
Derivative financial liabilities	$ 33,357,156	-	33,357,156	21,005,376	2,703,647	9,648,133
Securities lending segment	30,656,153	-	30,656,153	30,656,153	-	-
Repurchase agreement	62,742,896	-	62,742,896	9,273,490	-	53,469,406
Total	$ 126,756,205	-	126,756,205	60,935,019	2,703,647	63,117,539

December 31, 2016

Financial assets that are offset, have an exercisable master netting arrangement or similar agreement

	Gross amounts of recognized financial assets (a)	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): Financial instruments (Note)	Amounts not off set in the balance sheet (d): Cash collateral received	Net amount (e)=(c)-(d)
Derivative financial assets	$ 63,991,430	-	63,991,430	40,869,413	2,221,768	20,900,249

December 31, 2016

Financial liabilities that are offset, have an exercisable master netting arrangement or similar agreement

	Gross amounts of recognized financial liabilities (a)	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): Financial instruments (Note)	Amounts not off set in the balance sheet (d): 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

Note：Master netting arrangements and non-cash financial collaterals are included.

(vii) 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.

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."

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:

i) Pillar 1

Pillar 1 covers the capital requirement for credit risk, market risk, and operational risk.

1. 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 and the credit risk of counterparty. Measurement methods include standardized approach and internal ratings-based (IRB) approaches. The Bank adopts standardized approach in the calculation of required capital.

2. 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.

3. 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.

ii) 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.

iii) Pillar 3

Pillar 3 involves market discipline and requires banks to disclosure 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.

4) Capital adequacy ratios of Establish the thorough liquidity risk measurement for measuring liquidity
risks. The common methods are asthe Bank and its subsidiaries

Period / Analyzed items			December 31, 2017	December 31, 2016
Regulatory capital	Common equity		259,049,577	235,359,716
	Other tier 1 capital		27,300,493	31,213,415
	Tier 2 capital		31,032,043	42,822,408
	Regulatory capital		317,382,113	309,395,539
Amount of Risk weighted assets	Credit risk	Standardized approach (SA)	1,860,029,895	1,906,487,836
		Internal ratings based (IRB) approach	-	-
		Assets securitization	42,196,481	59,766,653
	Operational risk	Basic indicator approach (BIA)	-	-
		Standardized approach (SA)/Alternative Standardized approaches (ASA)	147,601,288	140,883,092
		Advanced measurement approaches (AMA)	-	-
	Market risk	Standardized approach (SA)	143,127,258	103,137,164
		Internal model approach	-	-
	Total amount of risk weighted assets		2,192,954,922	2,210,274,745
Capital adequacy ratio			14.47 %	14.00 %
Ratio of common equity to risk weighted assets (%)			11.81 %	10.65 %
Ratio of tier 1 capital to risk weighted assets (%)			13.06 %	12.06 %
Leverage ratio			7.16 %	7.06 %

(ao) Structured entities that are not included in consolidated financial reports

(i) 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.

(ii) The scales of structured entities not included in consolidated financial reports were as follows:

	December 31, 2017	December 31, 2016
Asset backed securities	$159,720,905,853	164,908,079,382
Private fund	555,144,783	607,730,084

(iii) The carrying amounts of interests held by the Bank and its subsidiaries in these structured entities were as follows:

	December 31, 2017	December 31, 2016
Assets held by the Bank and its subsidiaries		
Available-for-sale financial assets－net	$ 31,010,012	25,407,479
Loans－net	1,098,087	1,646,000
Held-to-maturity financial assets－net	480,916	153,633
Other assets－net	580,509	661,249
Total assets held by the Bank and its subsidiaries	**$ 33,169,524**	**27,868,361**

	December 31, 2017	December 31, 2016
Liabilities held by the Bank and its subsidiaries		
Deposits and remittances	**$ 4,524**	**7,100**

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.

(iv) As of December 31, 2017 and 2016, the Bank and its subsidiaries have not provided any financial support to their special purpose entities that are not included in consolidated financial reports.

(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.
LH Financial Group Public Company Limited	〃
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.	〃
Showa Denko Hd Trace Corp.	The Chairman of the Bank is its director.
Straits Exchange Foundation	The Chairman of the Bank is its body corporate 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	〃
Wu Tzu Development Co., Ltd.	Investee company under equity method of the company which is controlled by the same company as the Bank.
HoFa Land Development Co., Ltd.	〃

Name of related party	Relationship with 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.
CTBC Investment Trust Funds	Securities investment trust funds managed by the company which is controlled by the same company as the Bank.
Overseas Investment & Development Corp.	The director of the Bank is its Chairman.
Wei Fu Investment Co., Ltd.	The director of the parent company.
Yi Chuan Investment Co.,Ltd.	〃
Hewei Investment Co., Ltd.	The Chairman of the parent company of the Bank is its director.
Sunghung Investment Co., Ltd.	〃
Fenglu Development & Investment Co., Ltd.	〃
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.
Quanwei Investment Co., Limited	〃
Landrich International Ltd.	The company which is (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.
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.
CTBC Financial Park	The director of the company which is controlled by the same company as the Bank is its body corporate representative.
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.

Name of related party	Relationship with the Bank
Yan Yuan Investment Co., Ltd.	The company’s General Manager is the director of the company which is controlled by the same company as the Bank.
Chailease Finance Co., Ltd.	Related party in substance.
Sungyong Investment Co., Ltd.	〃
Sungbo Co., Ltd.	〃
Jungguan Investment Co., Ltd.	〃
Kuan Ho Development Co., Ltd.	〃
Zhonghang Co., Ltd.	〃
Bosser Design Inc.	〃
CTC Group Inc.	〃
APEX Credit Solutions Inc.	〃
Changchi Investments Co., Ltd.	〃
Yi Hua Investment Co., Ltd.	〃
Yi Kao Investment Co., Ltd.	〃
Shin Wen Investment Co., Ltd.	〃
CTBC Real Estate Co., Ltd.	〃
Chia Shih Investment Co., Ltd.	〃
Kae Lee Investment Co., Ltd.	〃
Leandev Technology Co., Ltd.	〃
Wei Chaung Information Co., Ltd.	〃
Chung-Chie Property Management	〃
Global Hospitality Group Inc.	〃
Chailease Auto Rental Co., Ltd.	〃
Other related parties	The directors of CTBC Financial Holding Co., Ltd. and subsidiaries (including independent directors), supervisors, managers and their families, spouses, etc.

(b) Significant transactions between related parties and the Bank

(i) Lease

For the years ended December 31, 2017 and 2016, the rental revenue that the Bank received from related parties for the rental of buildings, parking spaces, and safe deposit boxes amounted to $270,509 and $213,237, respectively, constituting 53.75% and 47.85%, respectively, of total rental income.

As of December 31, 2017 and 2016, deposits for renting safe boxes to related parties amounted to $5 and $6, respectively, the rents received in advance from related parties amounted to $7,665 and $8,243, respectively. The guarantee deposit for the use of space and machinery received from related parties amounted to $69,358 and $64,545, respectively.

(ii) Donations

Related party	For the years ended December 31 2017	2016
CTBC Culture Foundation	$ 49,000	49,000
CTBC Charity Foundation	54,000	45,820
CTBC Anti-Drug Educational Foundation	-	21,000
CTBC Financial Management College	50,412	56,222
Total	**$ 153,412**	**172,042**

(iii) Guarantee

December 31, 2017

Related party	Maximum balance	Ending balance	Balance of guarantee reserve	Range of interest rates	Collateral
Showa Denko Hd Trace Corp.	$ 1,500	1,500	-	1%	Securities/ the NTD deposits in the Bank
Huaku Development Co., Ltd.	46,902	46,902	-	0.95%	Land

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%	Land

(iv) Loans

December 31, 2017

Categories	Number/name of related parties	Maximum balance	Ending balance	Settlement status: Normal loans	Settlement status: Overdue loans	Collateral	Loan conditions
Consumer loan—employee	45	$ 20,604	11,182	11,182	-	None	Note
Home loan mortgage	444	2,356,026	2,194,369	2,194,369	-	Real estate/ others	〃
Others	Nan Ya Plastics Corporation	2,613,535	2,480,637	2,480,637	-	Real estate/ plant/ machine room	〃
〃	Huaku Development Co., Ltd.	1,050,000	1,050,000	1,050,000	-	Real estate	〃
〃	CTC Group Inc.	439,229	385,039	385,039	-	Real estate	〃
〃	Jungguan Investment Co.,Ltd.	355,000	350,000	350,000	-	Real estate	〃
〃	Taipei Financial Center Corporation	376,756	269,573	269,573	-	Real estate/ buildings for commercial use	〃
〃	Kuan Ho Development Co., Ltd.	245,000	245,000	245,000	-	Real estate	〃
〃	Sunghung Investment Co., Ltd.	44,000	44,000	44,000	-	Real estate	〃
〃	Changchi Investments Co., Ltd.	9,084	8,452	8,452	-	Real estate	〃
〃	Others	78,942	67,108	67,108	-	Real estate	〃

December 31, 2016

Categories	Number/name of related parties	Maximum balance	Ending balance	Settlement status: Normal loans	Settlement status: Overdue loans	Collateral	Loan conditions
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/machinery for manufacturing	〃
〃	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/ plant/ machine room	〃
〃	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	〃
〃	Kuan Ho Development Co., Ltd.	245,000	245,000	245,000	-	Real estate	〃
〃	Zhonghang Co., Ltd.	271,600	224,000	224,000	-	Vehicle/ cargo aircraft	〃
〃	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	〃

Note: The terms of loans between related and non-related parties are identical.

(v) Deposits

Related party	December 31, 2017 Maximum balance	Ending balance	Range of interest rates	Interest expenses
CTBC Financial Holding Co., Ltd.	$ 20,078,851	18,678,943	0~0.16%	81
Taiwan Life Insurance Co., Ltd.	34,900,558	15,996,525	0~0.30%	10,219
HoFa Land Development Co.,Ltd.	3,370,887	2,952,819	0~0.45%	2,030
Showa Denko Hd Trace Corp.	3,207,376	2,332,749	0~2.02%	23,725
CTBC Securities Co., Ltd.	4,940,108	1,921,013	0~1.07%	10,198
CTBC Charity Foundation	1,111,542	909,871	0~1.07%	5,934
Taiwan Sports Lottery Co., Ltd.	1,014,570	699,636	0~0.01%	53
Taiwan Lottery Co., Ltd.	854,835	676,013	0~0.14%	483
Yan Yuan Investment Co.,Ltd.	808,739	559,505	0~0.01%	45
Quanwei Investment Co., Limited	505,811	480,260	0~0.01%	30
Taiwan Institute of Economic Research	472,821	423,814	0~1.33%	2,106
Shin Wen Investment Co., Ltd.	421,426	421,426	0~0.01%	12
CTBC Investments Co., Ltd.	444,002	415,124	0~0.45%	1,347
Yi Kao Investment Co., Ltd.	416,142	377,272	0.01%	23
Kainan High School of Commerce and Industry	345,795	298,311	0~1.22%	2,119
Overseas Investment & Development Corp.	299,142	282,671	0~1.53%	1,958
CTBC Real Estate Co., Ltd.	403,474	268,125	0~1.25%	2,681
Fenglu Development & Investment Co., Ltd.	216,213	216,213	0~0.01%	18
CTBC Venture Capital Co., Ltd.	526,591	208,325	0~0.16%	20
Kuan Ho Development Co., Ltd.	201,841	201,841	0~0.01%	10
Chia Shih Investment Co., Ltd.	190,926	190,881	0~0.01%	12
Straits Exchange Foundation	187,030	187,030	0.15~1.22%	1,907
CTBC Asia Limited	222,412	163,428	0.25~1.55%	758
Yi Hua Investment Co., Ltd..	159,505	159,445	0~0.01%	12
CTBC Financial Management College	211,089	159,153	0~1.22%	193
Sunghung Investment Co., Ltd.	127,767	127,767	0~0.01%	5
Kae Lee Investment Co., Ltd.	122,080	121,930	0~0.01%	6
Wu Tzu Development Co., Ltd.	462,421	118,402	0~0.01%	20
Hewei Investment Co., Ltd.	111,564	107,413	0~0.01%	10
Yi Chuan Investment Co., Ltd.	121,080	106,419	0~0.01%	7
TransWorld University	234,056	103,700	0~1.22%	165
Others	19,806,901	6,898,194		36,519
Total	$ **96,497,555**	**56,764,218**		**102,706**

Related party	December 31, 2016 Maximum balance	Ending balance	Range of interest rates	Interest expenses
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**

(vi) Call loans to banks

Related party	For the year ended December 31, 2017 Ending balance	Range of interest rates	Interest revenues
Grand Bills Finance Corporation	$ -	0.37~0.40%	**73**

Related party	For the year ended December 31, 2016 Ending balance	Range of interest rates	Interest revenues
Grand Bills Finance Corporation	$ -	0.31%	**25**

(vii) Financial derivatives

December 31, 2017							
						Balance sheet	
Related party	Derivative financial instruments	Contract period	Notional principal		Unrealized profit	Account	Ending Balance
CTBC Investments Trust Funds	Foreign exchange swap	12.07.2017~ 01.11.2018	USD	2,650	(1,109)	(Note1)	(1,109)

December 31, 2016							
						Balance sheet	
Related party	Derivative financial instruments	Contract period	Notional principal		Unrealized profit	Account	Ending Balance
CTBC Investments Trust Funds	Foreign exchange swap	12.13.2016~ 01.17.2017	USD	5,000	2,836	(Note2)	2,836

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

Note2: Financial assets measured at fair value through profit or loss.

(viii) Securities sold under repurchase agreements

	For the year ended December 31, 2017		
Related party	**Ending balance**	**Interest payable**	**Interest expense**
Straits Exchange Foundation	$ -	-	59

	For the year ended December 31, 2016		
Related party	**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**

(ix) Others

1) Commission and other income

Related party	Summary	For the years ended December 31 2017	2016
Taiwan Life Insurance Co., Ltd.	Commission for joint sales, income from group catering, and commission income	$ 5,532,257	5,648,187
CTBC Investments Co., Ltd.	Feedback fund, income from group catering, allocation of information and commission income	41,401	47,696
TLG Insurance Co., Ltd.	Commission for joint sales ,insurance claims and commission income	29,281	20,031
CTBC Financial Holding Co., Ltd.	Allocation of information, commission income and income from group catering	23,773	31,995
CTBC Securities Co., Ltd.	Profits from selling products, income from group catering and commission income	16,695	16,678
Taiwan Lottery Co., Ltd.	Income from group catering, allocation of information and income from machine relocation	5,802	7,446
CTBC Asia Limited	Commission income	2,585	2,560
Kinpo Electronics, Inc.	Commission income	2,006	2,013
Grand Bills Finance Corporation	Commission income	860	898
CTBC Venture Capital Co., Ltd.	Remittance fees, confirmation fees, income from group catering, trust management fees and allocation of information	555	556
Huaku Development Co., Ltd	Commission income	50	600
Mirae Investment Trust Funds	Commission income	-	2,305
Individuals	Commission income	5,761	3,745
		$ 5,661,026	**5,784,710**

The balance of accounts receivable for foregoing transactions were as follows:

Related party	Summary	December 31, 2017	December 31, 2016
Taiwan Life Insurance Co., Ltd.	Commission for joint sales, income from group catering and commission income	$ 664,579	461,251
CTBC Investments Co., Ltd.	Feedback fund, income from group catering, allocation of information and commission income	620	278
TLG Insurance Co., Ltd.	Commission for joint sales, insurance claims and commission income	23	3
CTBC Financial Holding Co., Ltd.	Allocation of information, commission income and income from group catering	4,743	5,949
CTBC Securities Co., Ltd.	Profits from selling products, income from group catering and commission income	497	421
Taiwan Lottery Co., Ltd.	Income from group catering, allocation of information and income from machine relocation	625	745
CTBC Asia Limited	Commission income	167	128
Kinpo Electronics, Inc.	Commission income	164	224
Grand Bills Finance Corporation	Commission income	62	73
CTBC Venture Capital Co., Ltd.	Remittance fees, confirmation fees, income from group catering, trust management fees and allocation of information	81	144
Mirae Investment Trust Funds	Commission income	-	157
		$ 671,561	**469,373**

2) Handling fees and other general administration expenses

Related party	Summary	For the years ended December 31 2017	2016
Taiwan Lottery Co., Ltd.	Lottery service fees	$ 1,528,907	1,481,661
Brothers Entertaining Co., Ltd.	Sponsorship, marketing feedback fund and gift expenses	229,376	208,771
CTBC Financial Park	The Bank's headquarters management fees	151,001	148,116
CTBC Security Co., Ltd.	Security fees	131,871	126,348
Taipei Financial Center Corporation	Sponsorship, joint-brand credit card payment, and ATM utilities	126,643	60,892
Taiwan Life Insurance Co., Ltd.	Group insurance fees, bonus for joint sales campaigns and rental fees	126,604	118,472
Taiwan Relo Club, Limited	Marketing fees and gift expenses	52,842	41,873
CTBC Securities Co., Ltd.	Service fees for trust, brokerage fees, proxy solicitation fees and rental fees	32,727	41,099
APEX Credit Solutions Inc.	Collection assistance fees	17,043	17,986
TLG Insurance Co., Ltd.	Insurance fees	14,910	10,389
Taiwan Institute of Economic Research	Expense for domestic economics research and business consulting commissioned research	13,850	15,850
Chailease Finance Co., Ltd.	Leasing of official vehicles, rental fees, and business service fees	9,982	25,033
Chung-Chie Property Management Co., Ltd.	Maintenance and cleaning fees	8,568	-
TLG Capital Co., Ltd.	Rental fees for official vehicles	7,864	641
Sungbo Co., Ltd.	Gift expenses	1,755	2,074
Global Hospitality Group Inc.	Entertainment expenses	1,205	-
My Leasing(Mauritius) Corp.	Rental fees for official vehicles	840	-
CTBC Culture Foundation	Sponsorship, marketing feedback fund and business service fees	799	6,238
Bosser Design Inc.	Upholstery fees, repair expenses and interior renovation fees	264	10,371
United Real Estate Management Co., Ltd.	Rental fees	244	1,027
The Third Wednesday Club	Annual fee and sponsorship	100	100
Landrich International Ltd.	Gift expenses, training fees and board expenses	16	162
Wei Chaung Information Co., Ltd.	System function improvement fees	-	360
Leandev Technology Co.,Ltd.	System development and maintenance fees	-	443
		$ 2,457,411	**2,317,906**

Foregoing transactions, accounts payable balances were as follows:

Related party	Summary	December 31, 2017	December 31, 2016
Taiwan Lottery Co., Ltd.	Lottery service fees	$ 412,540	327,346
Brothers Entertaining Co., Ltd.	Sponsorship, marketing feedback fund and gift expenses	3,779	-
CTBC Financial Park	The Bank's headquarters management fees	28,681	28,000
CTBC Security Co., Ltd.	Security fees	5,011	8,385
Taipei Financial Center Corporation	Sponsorship, joint-brand credit card payment, and ATM utilities	13,144	-
Taiwan Life Insurance Co., Ltd.	Group insurance fees, bonus for joint sales campaigns and rental fees	12,139	12,134
CTBC Securities Co., Ltd	Service fees for trust, brokerage fees, proxy solicitation fees and rental fees	5,147	9,409
APEX Credit Solutions Inc.	Collection assistance fees	3,460	2,808
TLG Insurance Co., Ltd.	Insurance fees	4,370	250
Taiwan Institute of Economic Research	Expense for domestic economics research and business consulting commissioned research	6,550	4,150
Chung-Chie Property Management Co., Ltd.	Maintenance and cleaning fees	206	-
Sungbo Co., Ltd.	Gift expenses	157	88
CTBC Culture Foundation	Sponsorship, marketing feedback fund and business service fees	-	513
		$ 495,184	**393,083**

3) Others

Related party	Summary	December 31, 2017	December 31, 2016
CTBC Asset Management Co., Ltd.	Profits in property transactions-Investment property(Note2)	$ 2,535,287	-
Taipei Financial Center Corporation	Balance of share holdings	371,250	371,250
Chailease Finance Co., Ltd.	Released undue loans (Note1)	23,999	81,569
CTBC Asia Limited	Advances for office rentals	4,169	4,427
CTBC Financial Holding Co., Ltd.	Housing sales, building and equipment	3,775	-
Others	Advances for utilities expenses, security fees, training and other expenses	8,184	6,270
		$ 2,946,664	**463,516**

Note1: 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.

Note2: The transaction prices were setting in reference to the appraisal report of an real estate appraisers firm. Please refer to Note 6(m) for the information of relevant transactions.

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

	For the years ended December 31	
	2017	**2016**
Salary and other short-term employee benefits	$ 1,165,369	1,100,631
Post-employment benefits	19,064	20,275
Other long-term employee benefits	-	11
Share-based payment	204,718	254,867
Total	**$ 1,389,151**	**1,375,784**

(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, 2017	December 31, 2016	
Financial assets measured at fair value through profit or loss	Bond	24,492,284	-	Repurchase agreement pledge
Due from Central Bank and call loans to bank	Time deposit	500,000	3,500,000	Deposits for calling loans in foreign currency
	Time deposit	4,500,000	5,500,000	Call loan liquidation account in U.S. dollars
	Time deposit	-	800,000	Call loan liquidation account in JPY
	Time deposit	100,000	100,000	Deposits for bills dealer
	Time deposit	-	500,000	Daytime overdraft
Available-for-sale financial assets－net	Bond	7,846,347	4,437,625	Credit line from Federal Reserve Bank and other deposits
	NCD of Central Bank	-	8,500,000	Daytime overdrafts of Central Bank
	NCD of Central Bank	3,000,000	4,500,000	Call loan liquidation account in U.S. dollars
	NCD of Central Bank	-	6,500,000	Deposits for calling loans in foreign currency
	Government bond	186,342	203,938	Overdrafts secured
	Government bond	-	2,898,172	Guarantee deposits for transaction settlements and call loans from banks
	Government bond	16,808,099	29,215,447	Repurchase agreement pledge
	Government bond	597,341	639,742	Futures margins
	Government bond	-	2,767,752	Marketable securities entrusted
	Bond	2,801,503	-	Pledge
	Government bond	54,592	58,093	Other required reserve and guarantee deposit
Receivables	Matured securities classified under other receivables	9,400	9,900	Deposits for litigation and others
Held to maturity financial assets－net	NCD of Central Bank	9,000,000	-	Daytime overdrafts of Central Bank
	NCD of Central Bank	9,500,000	-	Deposits for calling loans in foreign currency
	NCD of Central Bank	800,000	-	Call loan liquidation account in JPY
	NCD of Central Bank	2,500,000	-	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
	Government bond	150,000	150,000	Bond settlement reserves
	Government bond	81,800	54,100	Deposits for litigation and others

Assets	Type of securities	Par value of refundable deposits December 31, 2017	Par value of refundable deposits December 31, 2016	Purpose of collateral
Held to maturity financial assets－net	Government bond	14,617	-	Other legal reserve
	Government bond	5,000	5,000	Other (Bid bond)
Other financial assets	Time deposit	120,000	120,000	Operational guarantee deposit for securities dealer
	Time deposit	40,000	40,000	Underwriting guarantee deposit for securities dealer
	Time deposit	10,000	10,000	Guarantee deposit for futures dealer
	Time deposit	254,072	243,726	CPC Corporation, Taiwan guarantee fulfillment
	Time deposit	49,623	49,500	Public welfare walkway guarantee fulfillment

As of December 31, 2017 and 2016 the deposits for public welfare lottery issuance of the Bank's irrevocable standby letter of credit were all $1,050,000.

(9) Significant Contingent Liabilities and Unrecognized Contract Commitments:

(a) Major commitments and contingencies

	December 31, 2017	December 31, 2016
Contingent liabilities from guarantee and letter of credit business	$ 83,585,619	71,292,721
Promissory note to Central Bank for Bank's clearance	969,419	1,472,619
Client notes in custody	91,164,866	89,970,027
Marketable securities and debts in custody	2,585,480,564	2,311,583,523
Consigned travelers' checks in custody	283,004	325,053
Designated purpose trust accounts	841,738,263	763,869,994
Other items in custody	444,735	451,386
	$ 3,603,666,470	**3,238,965,323**

As of December 31, 2017 and 2016, the credit amount of the cancellable loan commitments of the Bank and its subsidiaries were $1,517,591,873 and $1,695,537,471, respectively.

The Bank renewed the services contract of information resources with International Business Machines, authorizing a five years and four months contract term commencing from September 1, 2017, and ending on December 31, 2022, in the amount of $2,670,000, which comprises 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 the term are from January 1, 2014 to December 31, 2023. 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. 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 and the Bank adopted appropriate risk control strategies.

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 $1,633,851 was for software service). The maintenance service started from May 31, 2013 to December 2023.

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 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 PT Bank CTBC Indonesia obtain financing facility, the Bank has issued Letters of Comfort to financial institutions on November 18, 2015 to declare that the operation of the company is actively supported by the Bank. The credit application amounts is IDR300,000,000 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, 2017, the outstanding balance amounted to $152,100.

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 contract price amounted to $5,139,800 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, 2017, the outstanding balance amounted to $508,216.

As of December 31, 2017, the unpaid amount of the committed investment facility of signed private fund contract of the Bank and its subsidiaries were JPY 3,231,818 thousands.

(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, 2017	December 31, 2016	Trust Liabilities	December 31, 2017	December 31, 2016
Cash	$ 43,595,648	35,483,750	Payables	231,962,660	260,833,297
Bonds	15,753,104	10,219,792	Other liabilities	42,949	41,507
Stocks	204,422,205	131,185,027	Trust capital	540,889,727	459,467,027
Mutual funds	278,511,607	254,029,498	Miscellaneous reserves and accumulated earnings	67,906,551	42,575,144
Structured products	19,325,008	20,545,863			
Other investments	1,940,434	1,527,761			
Receivables	25,149	264,950			
Real estates－net	46,092,141	49,454,173			
Securities in custody	231,121,155	260,190,946			
Other assets	15,436	15,215			
Total trust assets	**$840,801,887**	**762,916,975**	Total trust liabilities	**840,801,887**	**762,916,975**

Note: As of December 31, 2017 and 2016, the Bank’s Offshore Banking Unit invested in foreign securities under specific purpose trust accounts amounting to $2,336,913 and $1,866,981, respectively.

Properties Catalog of Trust Accounts

Investments	December 31, 2017	December 31, 2016
Cash	$ 43,595,648	35,483,750
Bonds	15,753,104	10,219,792
Stocks	204,422,205	131,185,027
Mutual funds	278,511,607	254,029,498
Structured products	19,325,008	20,545,863
Other investments	1,940,434	1,527,761
Securities in custody	231,121,155	260,190,946
Real estates－net		
Lands	46,006,798	49,368,830
Buildings	85,343	85,343
Subtotal	46,092,141	49,454,173
Other assets		
Prepaid other payments	784	563
Long-term prepaid rent	14,652	14,652
Subtotal	15,436	15,215
Total	$ **840,776,738**	**762,652,025**

Income Statement of Trust Accounts

	For the years ended December 31, 2017	2016
Trust revenues	$ 9,547,473	6,349,831
Trust expenses	(603,146)	(580,320)
Earnings before tax	8,944,327	5,769,511
Income tax	(30,667)	(36,925)
Net profits	$ **8,913,660**	**5,732,586**

(c) Operating lease

Total amount of minimum future irrevocable operating lease payment of were as below:

	December 31, 2017	December 31, 2016
Less than 1 year	$ 1,038,987	894,263
1 year to 5 years	2,085,422	1,699,798
More than 5 years	752,552	950,578
Total	$ **3,876,961**	**3,544,639**

(d) Others

(i) 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, Mr. Chen. 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 Mr. Chen. 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. 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 losses 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, Mr. Koo, the former Chairman of the Bank, and the three involved employees did not obtain any personal benefits through the case.

After appealing for third instance, the Supreme Court of Republic of China has revoked the original second verdict in August 2014 and urged Taiwan High Court to re-examine its verdict. As it mentioned previously, Red Fire is the SPV of CTBC Holding. Thus, CTBC Holding did not sustain any loss, and Mr. Koo, 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."

Taiwan High Prosecutors Office has filed a motion to Taiwan High Court on July 6, 2016 against CTBC Holding to pursue the illegal proceed of $261,696 arising from the claimed manipulation of securities price. Taiwan High Court has noticed CTBC Holding to participate in the judiciary proceeding as a third party. CTBC Holding declares that no manipulation of securities price has been conducted by such personnel and CTBC Holding did not obtain or withhold any illegal proceed therefrom. CTBC Holding has appointed external legal counsel to represent it during the judiciary proceeding. This case is currently under the trial of Taiwan High Court.

(ii) Others

As for the real estate and non-performing loans transactions among the Bank and Tectonics Laboratories Co., Ltd. and other related parties during 2005 and 2006, 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 is currently under prosecutors' investigation. The case is expected to have no significant effect on the Bank's operation and shareholders' equity.

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." In addition, the board of directors of CTBC Holding instructed management team to coordinate with legal counsel to review this case. According to the report, "Mr. Chang is not a substantive responsible person of the company, and does not have decision-making power over the Bank's business. The procedure and the acquisition prices of the two transactions with regard to the Bank purchasing the land at Zone 15-2, Ankang Section, Neihu Dist., Taipei City, and the land and buildings at

Zone 13-1 and 13-7, Ankang Section, Neihu Dist., Taipei City are in compliance with legal procedures. Moreover, Mr. Chang did not attend the board meeting which resolved to purchase the aforementioned real estate; Mr. Chang did not involve the decision-making procedures. Furthermore, the counterparties of the transaction Yongyue Development Co., Ltd., Mr. Chang, and its ultimate beneficiary person — Ms. Wu, do not meet the definitions of the interested party or quasi-interested party, and all are incompatible with IAS definition of related party. Besides, according to the request memo and related documents, the transaction had gotten all necessary approval, and the acquisition prices were meet the appraised opinion made by two professional appraisal institutions. After interviewing with Mr. Yang, the director of Cushman and Wakefield, we opined that the aforementioned appraisal procedures were in compliance with regulations, and the acquisition prices did not exceed the ceiling resolved by the board of directors of the Bank, therefore, the transactions are not illegal." According to the opinion of the above legal counsel, the Bank evaluates this case is expected to have no significant impact on its operation and shareholders' equity.

(10) Significant Catastrophic Losses:None

(11) Significant Subsequent Events:

The amendments to the "Income Tax Act" enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, increased the income tax rate from the current 17% to 20% from January 1, 2018. The change of the tax rate does not affect the current period and deferral income tax in 2017; however, it will affect the current period and deferred income tax of the Bank in the future. If the new rate after the change is applied to the measurement, the temporary differences recognized in 2017 will increase the deferred income tax assets and deferred income tax liabilities, $676,968 and $143,887, respectively.

On March 14, 2018, to meet the demand for business development and to enhance capital liquidity, the Bank decided to issue unsecured financial debentures of 2018-1, amounting to USD$225,000 thousand.

(12) Other:

(a) Profitability

Unit: %

Items		December 31, 2017	December 31, 2016
Return on assets ratio (annual)	Before income tax	1.01	0.82
	After income tax	0.82	0.66
Return on common equity ratio (annual)	Before income tax	13.76	11.89
	After income tax	11.27	9.49
Net income ratio		32.05	26.27

Note 1: Return on assets ratio = Net income before/after income tax ÷ average total assets.

Note 2: Return on common equity ratio = Net income before/after income tax ÷ average total common stockholders' equity.

Note 3: Net income ratio = Net income after income tax ÷ Net revenue.

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.

(13) Disclosure Required:

(a) Related information on significant transactions:

(i) Loans to other businesses or individuals: Not applicable to bank subsidiaries; others:None.

(ii) Endorsements and guarantees for others: Not applicable to bank subsidiaries; others:None.

(iii) Marketable securities held as of December 31, 2017 (excluding invested subsidiaries, associates and joint ventures): not applicable to banking subsidiaries; others:None.

(iv) Cumulative purchases or sales of the same investee's capital stock up to $300,000 or 10% of paid-in capital: not applicable to banking subsidiaries; others:

Unit: In Thousands of New Taiwan Dollars/Thousand Shares

Name of company	Category and name of security	Account name	Name of counter-party	Relationship with the company	Beginning Balance		Purchases		Sales				Ending Balance (note)	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
CTBC Bank Co., Ltd.,	Stock	Long-term equity investment	LH Financial Group Public Company Limited	Investment under equity method	-	-	7,544,961	15,044,568	-	-	-	-	7,544,961	15,663,621

Note : The ending balance includes recognition of investment income or loss.

(v) Acquisition of real estate up to $300,000 or 10% of paid in capital:None.

(vi) Disposal of real estate up to $300,000 or 10% of paid in capital:

Unit: (In Thousands of New Taiwan Dollars)

Name of company	Type of property	Transaction date	Acquisition date	Book value	Transaction amount	Amount actually receivable	Gain from disposal	Counter-party	Nature of relationship	Purpose of disposal	Price reference	Other terms
CTBC Bank Co., Ltd.,	Land and Buildings	11.30,2017	Land: December 31, 2003 Buildings: October 4, 2005	1,157,901	3,508,888	3,508,888	2,350,987	CTBC Asset Management Co., Ltd.	Related parties	Active property	Valuation report	None
CTBC Bank Co., Ltd.,	Land and Buildings	11.30,2017	Land: December 31, 2003 Buildings: December 31, 2003	474,628	523,888	523,888	29,090	CTBC Asset Management Co., Ltd.	Related parties	Active property	Valuation report	None

(vii) Discount on commission fees for transaction with related parties up to $5,000:None.

(viii) Receivables from related parties up to $300,000 or 10% of paid in capital:

Unit: In Thousands of New Taiwan Dollars

Name of company	Counter-party	Nature of relationship	Ending balance	Turnover rate	Overdue		Amounts received in subsequent period	Allowance for bad debts
					Amount	Action taken		
CTBC Bank Co.,Ltd.,	Taiwan Life Insurance Co.,Ltd.	Controlled by the same company as the Bank.	664,579	- %	-	-	Has fully recovered	-

(ix) Financial derivative transactions: Not applicable to bank subsidiaries; others:None

(x) Information on NPL disposal transaction:

1) Summary table of NPL disposal:

Unit: In Thousands of JPY Dollars

Trade date	Counterparty	Debt component	Book value		Sale price		Gain (loss) on disposal		Additional term	Relationship
February 20,2017	Aurora Servicing. Ltd	Non-secured loan	JPY	283,753	JPY	271,830	JPY	(11,923)	None	Non-related party
February 24,2017	I.R Servicing. Ltd	Secured loan	JPY	16,231	JPY	19,690	JPY	3,459	None	Non-related party
February 24,2017	Aozora Servicing. Ltd.	Secured loan	JPY	149,934	JPY	155,860	JPY	5,926	None	Non-related party
February 24,2017	RCC	Non-secured loan	JPY	2,568	JPY	10	JPY	(2,558)	None	Non-related party
February 24,2017	Japan Servicing.Ltd	Secured loan	JPY	104,864	JPY	117,842	JPY	12,978	None	Non-related party
May 19,2017	I.R Servicing. Ltd	Secured loan	JPY	29,689	JPY	26,611	JPY	(3,078)	None	Non-related party
May 19,2017	Aozora Servicing. Ltd.	Secured loan	JPY	83,780	JPY	83,780	JPY	-	None	Non-related party
May 19,2017	Astry Servicing.Ltd.	Secured loan	JPY	27,607	JPY	27,607	JPY	-	None	Non-related party
June 19,2017	Aurora Servicing. Ltd.	Non-secured loan	JPY	101,384	JPY	56,042	JPY	(45,342)	None	Non-related party
June 19,2017	Japan Servicing.Ltd	Non-secured loan	JPY	189,264	JPY	183,309	JPY	(5,955)	None	Non-related party
June 30,2017	Astry Servicing.Ltd.	Secured loan	JPY	42,435	JPY	44,500	JPY	2,065	None	Non-related party
June 30,2017	Astry Servicing.Ltd.	Non-secured loan	JPY	21,467	JPY	21,467	JPY	-	None	Non-related party
June 30,2017	Astry Servicing.Ltd.	Secured loan	JPY	41,132	JPY	51,930	JPY	10,798	None	Non-related party
July 28,2017	I.R Servicing., Ltd	Secured loan	JPY	15,652	JPY	15,820	JPY	168	None	Non-related party
July 28,2017	Aozora Servicing., Ltd.	Secured loan	JPY	34,243	JPY	33,531	JPY	(712)	None	Non-related party
July 28,2017	Japan Servicing., Ltd	Secured loan	JPY	71,161	JPY	74,926	JPY	3,765	None	Non-related party
September 1,2017	Miuerva Servicing., Ltd	Non-secured loan	JPY	22,943	JPY	22,943	JPY	-	None	Non-related party
December 14, 2017	Astry Servicing., Ltd	Non-secured loan	JPY	246,843	JPY	89,718	JPY	(157,125)	None	Non-related party

2) Disposal of a single batch of NPL up to $1,000,000 and information on each transaction: None.

(xi) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None.

(xii) Business relationship and material transaction between the parent company and subsidiaries:

No. (Note)	Party	Counterparty	Relationship	Transaction status for the year ended December 31, 2017			
				Account	Amount	Terms	Percentage of consolidated net revenues or consolidated total assets
0	CTBC Bank Co., Ltd.	CTBC Capital Corp.	Parent to subsidiary	Cash and cash equivalents / Deposits and remittances	4,297,513	Identical with non-related parties	0.11%
〃	〃	The Tokyo Star Bank, Ltd.	〃	Deposits from Central Bank and other banks/ Due from Central Bank and call loans to bank	529,800	〃	0.01%
〃	〃	CTBC Bank (Philippines) Corp.	〃	Due from Central Bank and call loans to bank/ Deposits from Central Bank and other banks	2,238,600	〃	0.06%

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.

(xiii) Other significant transactions that may have substantial influence upon the decisions made by financial statement users:None.

(b) Related information on investee companies:

Unit: (In Thousands of New Taiwan Dollars/ Thousand shares)

Name of investee company	Location	Major operations	Ending ratio of shares	Book value of investment	Investment gains/losses recognized in current period	Aggregate shareholding of the Company and its subsidiaries				Remarks
						Shares currently held	Shares to be held	Total: Shares	Total: Ratio of shares	
CTBC Bank (Philippines) Corp.	16th to 19th Floors, Fort Legend Towers 31st Street corner 3rd Avenue Bonifacio Global City,Taguig City, 1634 Philippines	Primarily engages in commercial banking and financing business	99.60%	4,598,062	169,423	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 F1., JI Jenderal Sudirman Kav. 24 Jakarta 12920 Indonesia	Primarily engagesin commercial banking and financing business	99.00%	5,938,707	87,211	1	-	1	99.00%	〃
CTBC Bank Crop.(Canada)	1518 West Broadway, Vancouver, B.C. ,Canada, V6J 1W8	Primarily engagesin commercial banking and financing business	100.00%	1,446,338	90,084	2,746	-	2,746	100.00%	〃
CTBC Capital Corp.	801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, USA	Investment business	100.00%	13,979,274	420,570	6	-	6	100.00%	〃
Grand Bills Finance Corporation	11F., No.560, Sec. 4, Zhongxiao E. Rd., Da'anDist., Taipei City 106,Taiwan (R.O.C.)	Proprietary tradersof short-term billsand bonds	21.15%	1,956,376	133,204	114,399	-	114,399	21.15%	
CTBC Bank Corp.(USA)	801 S. Figueroa Street, Suite 2300, Los Angeles,CA 90017,USA	Primarily engagesin commercial banking and financing business	100.00%	13,226,753	374,732	common shares 3 preferred shares100	-	common shares 3 preferred shares100	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 engagesin commercial banking and financing business	100.00%	37,946,887	3,489,359	700	-	700	100.00%	〃
Tokyo Star Business Finance, Ltd.	2-7-1, Nishi-Shinjuku, Shinjuku,Tokyo	Financing and assurance business	100.00%	2,993,873	89,164	1,936	-	1,936	100.00%	〃
TSB Servicer, Ltd.	2-2-17 Akasaka, Minato,Tokyo	Debts management business	100.00%	505,769	29,017	-	-	-	100.00%	〃
AZ Star Co., Ltd	3-2-7, Kudan-minami, Chiyodaku, Tokyo	Fund management business	40.00%	4,163	222	-	-	-	40.00%	〃
AZ Star no. 1 Investment Limited Partnership	3-2-7, Kudan-minami, Chiyodaku, Tokyo	Equity investment business	43.98%	249,232	868,047	3	-	3	43.98%	〃
LH Financial Group Public Company Limited	1Q.House Lumpini Building, 5th Floor, South Sathon Road, Thungmahamek, Sathon, Bangkok 10120	Investment business	35.62%	15,663,621	403,295	7,544,961	-	7,544,961	35.62%	〃

(c) Related information on investments in Mainland China:

(i) 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 businesses	Total amount of paid-in capital	Method of investment (Note 1)	Accumulated outflow of investment from Taiwan as of January 1, 2017	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2017	Investment gains (losses) (Note 2)	Percentage of ownership for direct or indirect investment	Investment gains (losses) (Note 2)	Book value as of December 31, 2017	Accumulated inward remittance of earning as of December 31, 2017
					Outflow	Inflow						
CTBC Bank Co., Ltd., Shanghai Branch	Commercial banking	6,194,068 USD 206,045	3	6,194,068 USD 206,045	-	-	6,194,068 USD 206,045	(112,848) CNY (25,812)	A branch in Shanghai; not an investee	(112,848) CNY (25,812)	6,473,115 CNY 1,425,015	None
CTBC Bank Co., Ltd., Guangzhou Branch	"	4,114,056 USD 130,531	3	4,114,056 USD 130,531	-	-	4,114,056 USD 130,531	154,360 CNY 33,980	A branch in Guangzhou; not an investee	154,360 CNY 33,980	4,106,068 CNY 894,273	None
CTBC Bank Co., Ltd., Xiamen Branch	"	4,081,960 CNY 800,000	3	4,081,960 CNY 800,000	-	-	4,081,960 CNY 800,000	7,153 CNY 1,520	A branch in Xiamen; not an investee	7,153 CNY 1,520	3,760,332 CNY 812,294	None

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.

(ii) Upper limit on investment in Mainland China:

Unit : In Thousands of New Taiwan Dollars/ Thousands of US Dollars/ Thousands of CNY Dollars

Accumulated outflow of investment from Taiwan to Mainland China as of December 31, 2017	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment authorized by Investment Commission, MOEA
14,390,084 (USD 336,576) (CNY 800,000)	14,060,766 (USD 471,079)	167,826,071

(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 operation 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, 2017 and 2016, 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, 2017	Institutional banking	Retail banking	Other segments	Total
Net interest income	$ 30,861,263	17,096,076	216,043	48,173,382
Non-interest income	15,528,438	24,239,163	5,742,211	45,509,812
Net income	46,389,701	41,335,239	5,958,254	93,683,194
Net Income Before Tax	**$ 18,562,997**	**17,805,028**	**280,366**	**36,648,391**
Total assets	**$ 2,817,813,347**	**880,106,889**	**63,578,284**	**3,761,498,520**

For the year ended December 31, 2016	Institutional banking	Retail banking	Other segments	Total
Net interest income	$ 32,203,625	15,145,222	(26,055)	47,322,792
Non-interest income	15,194,623	23,160,037	2,241,936	40,596,596
Net income	47,398,248	38,305,259	2,215,881	87,919,388
Net Income Before Tax	**$ 15,744,610**	**16,161,586**	**(2,979,518)**	**28,926,678**
Total assets	**$ 2,720,997,584**	**736,513,920**	**65,161,699**	**3,522,673,203**

(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, 2017	2016
Net income：		
Taiwan	$ 63,411,941	56,375,828
Asia	25,815,447	27,609,121
North America	4,455,806	3,934,439
Total	**$ 93,683,194**	**87,919,388**
Non-current assets：		
Taiwan	$ 68,946,868	75,346,876
Asia	14,252,665	16,806,942
North America	2,278,783	2,409,132
Total	**$ 85,478,316**	**94,562,950**

(c) Information on major customers:

For the years ended December 31, 2017 and 2016, 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.

Stock Code:5841

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD.

FINANCIAL REPORTS

December 31, 2017 and 2016
(With Independent Auditors' Report Thereon)

Address: **No.166, 168, 170,186,188, Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan, R.O.C.**

Telephone: **886-2-3327-7777**

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.

KPMG

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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, 2017 and 2016, and the statement of comprehensive income, changes in stockholders' equity and cash flows for the year ended December 31, 2017 and 2016, 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 the Bank as of December 31, 2017 and 2016, and its financial performance and its cash flows for the year ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports 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 Regulations 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank 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 financial statements for the year ended December, 2017. 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, 2017 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 (g), (h) 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.

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 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 auditors' 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 for the Bank.

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 auditors' 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 auditors' report are Chen, Chun-Kuang and Wu, Lin.

KPMG

Taipei, Taiwan (Republic of China)
March 21, 2018

Notes to Readers

The accompanying financial statements are intended only to present the statement of financial position, financial performance and its cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements 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.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD.

Balance Sheets

December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

		December 31, 2017		December 31, 2016	
	ASSETS	**Amount**	**%**	**Amount**	**%**
11000	Cash and cash equivalents (note 4 and 6(a))	$ 78,962,339	3	69,446,750	3
11500	Due from Central Bank and call loans to banks (note 6(b) and 8)	167,619,090	6	148,680,225	5
12000	Financial assets measured at fair value through profit or loss (note 4, 6(c) and (s) and 7)	99,461,184	3	146,617,110	5
14000	Available-for-sale financial assets─net (note 4, 6(d) and (s), and 8)	140,560,022	5	494,842,037	18
12300	Derivative financial assets─hedging─net (note 4 and 6(e))	137,010	-	416,342	-
12500	Securities purchased under resell agreements (note 4 and 6(f))	-	-	237,500	-
13000	Receivables─net (note 4, 6(g) and (i), 7 and 8)	116,935,669	4	101,211,950	4
13200	Current income tax assets (note 4)	421,834	-	585,558	-
13500	Loans─net (note 4, 6(h) and (i), and 7)	1,568,002,853	53	1,473,721,273	54
14500	Held-to-maturity financial assets─net (note 4, 6(j) and (s), and 8)	641,595,770	22	123,726,621	5
15000	Investments under equity method─net (note 4 and 6(k))	81,529,265	3	71,833,935	3
15500	Other financial assets─net (note 4, 6(i) and (l), and 8)	2,996,034	-	2,298,431	-
18500	Premises and equipment─net (note 4 and 6(n))	44,110,239	1	43,254,831	2
18700	Investment property─net (note 4 and 6(m))	2,207,123	-	4,450,140	-
19000	Intangible assets─net (note 4 and 6(o))	12,491,323	-	12,186,943	-
19300	Deferred income tax assets (note 4 and 6(aa))	4,211,654	-	3,668,855	-
19500	Other assets─net (note 4 and 6(p))	11,546,566	-	16,930,311	1
	TOTAL ASSETS	**$ 2,972,787,975**	**100**	**2,714,108,812**	**100**

		December 31, 2017		December 31, 2016	
	LIABILITIES AND EQUITY	**Amount**	**%**	**Amount**	**%**
	Liabilities:				
21000	Deposits from Central Bank and other banks (note 6(q))	$ 62,448,335	2	57,493,505	2
21500	Due to Central Bank and other banks (note 6(r))	770,271	-	1,249,510	-
22000	Financial liabilities measured at fair value through profit or loss (note 4, 6(c) and 7)	59,124,552	2	81,734,496	3
22300	Derivative financial liabilities─hedging─net (note 4 and 6(e))	16,865	-	303,599	-
22500	Securities sold under repurchase agreements (note 4 and 6(s))	53,163,109	2	39,200,341	2
23000	Payables (note 6(t) and 7)	63,969,796	2	60,403,625	2
23200	Current income tax liabilities (note 4)	2,038,009	-	2,158,961	-
23500	Deposits and remittances (note 6(u) and 7)	2,357,738,017	80	2,131,457,229	79
24000	Financial debentures (note 6(c), (e) and (v))	67,928,314	2	66,951,765	3
25500	Other financial liabilities (note 6(w))	11,405,536	-	9,971,469	-
25600	Provisions (note 4, 6(x) and (z))	5,041,394	-	5,393,559	-
29300	Deferred tax liabilities (note 4 and 6(aa))	858,112	-	369,704	-
29500	Other liabilities (note 6(y))	8,653,026	-	4,406,997	-
	Total Liabilities	2,693,155,336	90	2,461,094,760	91
	Capital stock:				
31101	Common stock (note 6(ac))	140,685,719	5	131,125,735	5
	Capital surplus: (note 6(ac))				
31501	Capital premium	28,607,197	1	28,607,197	1
31599	Others	1,181,491	-	1,181,491	-
	Retained earnings:				
32001	Legal reserve	71,848,629	2	64,920,980	2
32003	Special reserve	18,069,266	1	11,442,001	-
32005	Undistributed earnings (note 6(ad))	30,137,931	1	23,114,959	1
32500	Other equity interest (note 6(ac))	(10,897,594)	-	(7,378,311)	-
	Total Equity	279,632,639	10	253,014,052	9
	TOTAL LIABILITIES AND EQUITY	**$ 2,972,787,975**	**100**	**2,714,108,812**	**100**

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars , Except for Earnings Per Common Share)

		2017		2016		Change
		Amount	**%**	**Amount**	**%**	**%**
41000	Interest income (note 6(ag))	$ 49,363,379	64	45,743,468	65	8
51000	Less:Interest expenses (note 6(ag))	(16,086,963)	(21)	(14,613,255)	(21)	10
	Net interest income (note 6(ag))	33,276,416	43	31,130,213	44	7
	Net non-interest income (loss)					
49100	Service fee and commission income (note 6(ah))	29,636,843	38	29,905,511	42	(1)
49200	Gain on financial assets or liabilities measured at fair value through profit or loss (note 6(ai))	6,390,811	8	5,708,913	8	12
49300	Realized gains on available-for-sale financial assets	496,974	1	916,720	1	(46)
49400	Realized gains on held-to-maturity financial assets	3,553	-	-	-	100
49600	Foreign exchange gains	2,375,991	3	1,765,458	3	35
49700	Impairment loss on assets	(36,393)	-	(78,095)	-	53
49750	Proportionate share of gains from associates or joint ventures under equity method (note 6(k))	4,793,146	6	3,514,548	5	36
49800	Other net non-interest income	1,084,671	1	583,740	1	86
49815	Gain on investment property (note 6(m))	2,574,711	3	-	-	100
49899	Public-welfare lottery payment	(2,700,000)	(3)	(2,700,000)	(4)	-
	Net Revenue	77,896,723	100	70,747,008	100	10
58200	**Provisions for bad debt expenses and guarantee reserve (note 6(i))**	(2,616,224)	(3)	(5,169,132)	(7)	(49)
	Operating expenses:					
58500	Employee benefits expenses (note 6(aj))	(22,870,938)	(29)	(20,633,090)	(29)	11
59000	Depreciation and amortization expenses (note 6(ak))	(2,225,503)	(3)	(2,157,042)	(3)	3
59500	Other general and administrative expenses (note 6(am))	(16,096,416)	(21)	(15,857,278)	(22)	2
	Total operating expenses	(41,192,857)	(53)	(38,647,410)	(54)	7
61001	**Net income before tax from continuing operations**	34,087,642	44	26,930,466	39	27
61003	**Income tax expenses (note 6(aa))**	(4,066,191)	(5)	(3,838,302)	(5)	(6)
	Net Income	30,021,451	39	23,092,164	34	30
65000	**Other comprehensive income:**					
65200	**Items that will not be reclassified subsequently to profit or loss**					
65201	Remeasurement gains related to defined benefit plans	205,884	-	19,988	-	930
65205	Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	(1,105,808)	(1)	(1,931,883)	(3)	43
65207	Proportionate share of other comprehensive (losses) income from subsidiaries, associates or joint ventures under the equity method- items that will not be reclassified subsequently to profit or loss	(58,329)	-	9,370	-	(723)
65220	Income tax related to items that will not be reclassified to profit or loss	(31,138)	-	(6,594)	-	(372)
	Subtotal	(989,391)	(1)	(1,909,119)	(3)	48
65300	**Items that are or may be reclassified subsequently to profit or loss**					
65301	Exchange differences of overseas subsidiaries' financial reports translation	(4,605,469)	(6)	(2,714,590)	(4)	(70)
65302	Unrealized valuation gains (losses) on available-for-sale financial assets	1,154,805	1	(1,286,537)	(2)	190
65307	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	852,824	1	(988,807)	(1)	186
65320	Income tax related to items that are or may be reclassified to profit or loss	184,365	-	410,015	1	(55)
	Subtotal	(2,413,475)	(4)	(4,579,919)	(6)	47
65000	**Other comprehensive losses (net amount after tax)**	(3,402,866)	(5)	(6,489,038)	(9)	48
	Total comprehensive income	**$ 26,618,585**	**34**	**16,603,126**	**25**	60
	Earnings per share (unit: NT dollars) (Note 6(af))	**$ 2.13**		**1.66**		

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Capital Stock		Retained earnings			Other equity interest			
	Common 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	Change in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	Total equity
Balance at January 1, 2016	$ 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)	-	-	-	-	22,764	(2,607,009)	(1,972,910)	(1,931,883)	(6,489,038)
Total comprehensive income (losses)	-	-	-	-	23,114,928	(2,607,009)	(1,972,910)	(1,931,883)	16,603,126
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	10,272,080	-	(10,272,080)	-	-	-	-
Stock dividends of 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 at 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
Net Income	-	-	-	-	30,021,451	-	-	-	30,021,451
Other comprehensive income (losses)	-	-	-	-	116,417	(4,174,051)	1,760,576	(1,105,808)	(3,402,866)
Total comprehensive income (losses)	-	-	-	-	30,137,868	(4,174,051)	1,760,576	(1,105,808)	26,618,585
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	6,927,649	-	(6,927,649)	-	-	-	-
Special reserve appropriated	-	-	-	6,627,263	(6,627,263)	-	-	-	-
Stock dividends of common share	9,559,984	-	-	-	(9,559,984)	-	-	-	-
Others	-	-	-	2	-	-	-	-	2
Balance at December 31, 2017	**$ 140,685,719**	**29,788,688**	**71,848,629**	**18,069,266**	**30,137,931**	**(8,500,761)**	**(973,883)**	**(1,422,950)**	**279,632,639**

Note：For the years ended December 31, 2017 and 2016, the estimated compensations of employee were $17,083 and $13,498, respectively, which were deducted from the statement of comprehensive income.

See accompanying notes to financial statements.

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	2016
Cash Flows from Operating Activities:		
Net Income Before Tax	$ 34,087,642	26,930,466
Adjustments:		
Income and expenses items:		
Depreciation expense	1,720,768	1,676,500
Amortization expense	527,564	480,542
Provision for bad debt expense	2,616,224	5,169,132
Net (gains) losses on financial assets or liabilities measured at fair value through profit or loss	(2,868,350)	2,845,578
Interest expense	16,086,963	14,613,255
Interest income	(49,363,379)	(45,743,468)
Dividend income	(350,575)	(383,063)
Net change in other provisions	(698,745)	(5,472)
Proportionate share of gains from associates or joint ventures under the equity method	(4,793,146)	(3,514,548)
Losses on disposal and retirement of premises and equipment	25,423	34,586
Gains on disposal of investment properties	(2,578,315)	-
Losses on disposal of intangible assets	493	-
Gains on disposal of investments under cost method	(47,535)	(918)
Impairment loss on financial assets	8,814	3,976
Impairment loss on non-financial assets	27,579	74,119
Other adjustments	(2,484,757)	(961,622)
Subtotal of income and expense items	(42,170,974)	(25,711,403)
Changes in Operating Assets and Liabilities:		
Net Changes in Operating assets:		
Decrease in due from Central Bank and call loans to bank	564,252	20,675,928
Decrease (increase) in financial assets measured at fair value through profit or loss	51,955,098	(26,244,479)
Decrease (increase) in hedging derivative financial assets	279,332	(308,816)
(Increase) decrease in receivables	(14,269,605)	27,328,244
Increase in loans	(95,758,301)	(11,996,638)
Decrease (Increase) in available-for-sale financial assets	355,436,822	(183,615,713)
(Increase) decrease in held-to-maturity financial assets	(517,877,964)	23,352,606
Decrease in other financial assets	(897,795)	(334,015)
Net changes in Operating Assets	(220,568,161)	(151,142,883)
Net Changes in Operating Liabilities:		
Increase in deposits from Central Bank and other banks	4,954,830	14,589,299
Decrease in financial liabilities measured at fair value through profit or loss	(28,521,710)	(27,861,193)
Decrease in hedging derivative financial liabilities	(286,734)	(137,829)
Increase in payables	1,681,711	9,613,363
Increase in deposits and remittances	226,280,788	41,262,893
Increase in other financial liabilities	2,858,876	560,341
Decrease in employee benefits reserve	(248,986)	(199,900)
Net Changes in Operating Liabilities	206,718,775	37,826,974
Net Changes in Operating Assets and Liabilities	(13,849,386)	(113,315,909)
Sum of Adjustments	(56,020,360)	(139,027,312)
Cash Used in Operating Activities	(21,932,718)	(112,096,846)
Interest received	47,848,517	45,865,428
Dividends received	2,140,939	466,574
Interest paid	(14,207,066)	(15,876,439)
Income tax paid	(3,845,116)	(3,813,494)
Net Cash Flows Provided by (used in) Operating Activities	10,004,556	(85,454,777)

(English Translation of Financial Statements and Report Originally Issued in Chinese)

CTBC BANK CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	For the years ended December 31	
	2017	2016
Cash Flows from Investing Activities:		
Disposal of financial assets carried at cost	$ 133,697	-
Proceeds from capital reduction of financial assets at cost	50	-
Purchase of financial assets under equity method	(15,263,115)	-
Proceeds from capital reduction of investments accounted for using equity method	5,190,865	-
Purchase of premises and equipment	(2,259,995)	(2,938,723)
Disposal of premises and equipment	10,029	11,253
Purchase of intangible assets	(462,877)	(462,762)
Disposal of foreclosed properties	-	20,088
Disposal of investment properties	4,411,953	-
Decrease in receivables	-	12,979,683
Decrease in other assets	2,908,258	13,597,735
Net Cash Flows (Used in) Provided by Investing Activities	(5,331,135)	23,207,274
Cash Flows from Financing Activities:		
Decrease in due to Central Bank and other banks	(479,239)	(457,122)
Issuance of financial debentures	1,000,000	-
Repayments of financial debentures	-	(43,357,167)
Increase (decrease) in securities sold under repurchase agreements	13,962,768	(4,480,107)
Increase in financial liabilities designated as at fair value through profit or loss, upon initial recognition	5,372,640	25,177,620
Increase (decrease) in payables	4,555	(158,228)
Increase in other liabilities	4,247,061	138,539
Proceeds from issuing shares	-	3,000,000
Net Cash Flows Provided by (Used in) Financing Activities	24,107,785	(20,136,465)
Increase (decrease) in Cash and Cash Equivalents	28,781,206	(82,383,968)
Cash and Cash Equivalents at Beginning of Period	160,043,994	242,427,962
Cash and Cash Equivalents at end of Period	**$ 188,825,200**	**160,043,994**
Composition of Cash and Cash Equivalents:		
Cash and cash equivalents recognized in balance sheet	$ 78,962,339	69,446,750
Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents	109,862,861	90,359,744
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 Period	**$ 188,825,200**	**160,043,994**

See accompanying notes to financial statements.

We are Family

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