



CTBC BANK

2018 ANNUAL REPORT

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<http://mops.twse.com.tw>



Henry Moore Reclining Figure cast in 1957 | Artwork in CTBC Financial Park, Nangang Dist., Taipei City.

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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>

S&P Global Ratings

Address: Unit 1, Level 69, International Commerce Centre, 1 Austin Rd., West Kowloon, Hong Kong

Tel: +852-2533-3500

Website: <http://www.standardandpoors.com>

Fitch Australia Pty Ltd., Taiwan Branch

Address: Suite 1306, 13F., No. 205, 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: 24F., One Pacific Place, 88 Queensway, Admiralty, Hong Kong

Tel: +852-3758-1300

Website: <http://www.moody's.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 35

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I. Letter to shareholders

Dear Shareholders:

With Taiwan's economy sustaining moderate growth and a slight increase in loan demand momentum throughout the market in 2018, CTBC Bank was able to continue its outstanding performance, achieving record-high profits in its three major business domains of corporate banking, retail banking, and capital markets. The Bank's various businesses also received significant recognition from domestic and international industry assessment institutions, further demonstrating its position as Taiwan's banking industry leader.

2018 business plan and implementation results

For last year, we reported an industry-leading NT\$95.4 billion of net revenue, NT\$35.7 billion of consolidated pre-tax income, and NT\$29.7 billion of consolidated after-tax income, while our consolidated after-tax ROE reached 10.32%. The Bank's consolidated net revenue grew by 2% from the 2017 fiscal year and its consolidated pre-tax income decreased by 3%. The pre-tax income budget achievement rate was 100%. Excluding one-off property disposal gains, its consolidated pre-tax income rose by 5%.

A highlight of our business development in 2018 was our continued leadership in Taiwan's mobile payments market. In this direction, we have introduced more diverse payment tools and expanded our mobile payment channels. Our LINE Pay co-branded card was the driving force behind our credit card issuance volume topping the market in 2017 and 2018. Our success in engaging social media communities was crucial to cultivating younger consumer groups. Last year also saw our active international expansion of recent years pay off, with the Bank's overseas profits increasing by 22%. The excellent performance of Thailand's LH Financial Group, in which CTBC Bank invested in 2017, was particularly demonstrative of the benefits of our network's synergies. Xiamen Jinmeixin Consumer Finance Co., Ltd., a joint venture established in Xiamen by CTBC Bank and two mainland Chinese companies, began operations toward the end of 2017. Its future development is looking bright as it realized profits within its first fiscal year of operations.

We place great importance on customer experience. To this end, we strive to develop innovative and intuitive digital financial services. For example, noting that a growing number of customers are accessing financial services through their mobile devices, we upgraded our Home Bank app in 2018 to include industry-leading and user-friendly functions like voice-command transfers, a simplified log-in process, faster browsing, more diverse payment methods, and a robo-adviser. This combination of innovative technology and robo-advisory services is providing local customers with a new financial experience. CTBC Bank's digital innovation plan also includes its physical branches across Taiwan, all 152 of which have been upgraded to allow digital operations. Furthermore, we launched a mobile financial service, which combines online and offline financial services across

various channels such that the services provided are no longer subject to the time and location constraints of physical branches.

We have also continued to use ATMs as a centerpiece of our digital financial service efforts; in 2018, we launched first-of-their-kind smart X-ATMs, which integrate four major functions: finger-vein recognition, multi-language support, coin deposits, and foreign currency withdrawal. The Bank also developed technology that integrates Big Data and facial recognition and can be used in the future to detect suspicious cash withdrawals and prevent fraud. In addition, CTBC Bank harnessed blockchain technology to successfully accelerate the trade financing process. The Bank also applied the same technology to its payment confirmation services to provide a verifiable, trustworthy money flow mechanism that can greatly increase the operational efficiency of merchant clients and reduce the risks of identity theft and fraud.

Regarding organizational changes, CTBC Bank established in September 2018 an International Business Group charged with international business management and development. The group directly supervises the International Country Management Division, the Global Financial Institutions Division, all the regional divisions, and the Overseas Division, Retail Banking. Established in January 2018, the International Country Management Division is responsible for the policy, guidelines planning, overseas business management, project planning, and business coordination of overseas affiliates. Effectively integrating the business coordination and governance structure of these affiliates facilitates communication between them and headquarters, in turn benefiting our international expansion. In addition, to expand our base of high net worth customers and further fulfill their needs, CTBC Bank established a Private Wealth Management Division in November 2018. It is charged with the segment management of high net worth customers in order to meet the market's needs, enhance customer satisfaction, and grow company profits.

Both the Bank's innovation and expertise were honored by domestic and international industry organizations and publications in 2018. We were named the Best Bank in Asia at the Financial Insights Innovation Awards held by International Data Corporation. In addition to being the top-rated Taiwanese bank for the sixth consecutive year in *Brand Finance*'s Global 500 survey of the world's top banking brands, we were crowned the Best Bank in Taiwan by *FinanceAsia* for the 17th time. For its institutional banking services, CTBC Bank was named Taiwan's Best Commodities Derivatives House by *The Asset* for the eighth time and Taiwan's Best Trade Finance Bank by *Global Finance* for the 11th time. We also received the Best Private Bank in Taiwan award by *Euromoney* for the 14th year running and the Best Retail Bank in Taiwan award by *The Asian Banker* for the 12th 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 0.43% and 296%, respectively, indicating good asset quality. Our BIS ratio of 14.12% shows that our capital structure is

also sound. Domestic and foreign ratings agencies have maintained their stable outlooks on the back of the Bank's diversified business sources, adequate risk management, good funding sources and liquidity, and strong business position in the domestic market.

Latest credit ratings and effective dates

Rating agency	Credit rating		Outlook	Effective date
	Long-term	Short-term		
Moody's	A2	Prime-1	Stable	Nov. 23, 2018
S&P Global Ratings	A	A-1	Stable	Oct. 15, 2018
Fitch	A	F1	Stable	Sept. 17, 2018
	AA+(tw)	F1+(tw)	Stable	
Taiwan Ratings	twAA+	twA-1+	Stable	Sept. 26, 2018

Impact of the competitive, regulatory, and overall business environments

While the global economy enjoyed a recovery in 2017, it encountered divergent performances in 2018, mainly due to uncertainties such as trade conflict between major economies. Although strong economic expansion was recorded in the U.S., growth slowed in numerous countries and regions worldwide, including the European Union, China, and Japan; however, emerging markets in Southeast Asia sustained stable growth as they benefited from global supply chain changes. With its economic growth maintained at above 2.5% in 2018, slightly lower than the 3.1% of the previous year, Taiwan's economic performance remained relatively strong. Divergence was also seen in major countries' monetary policies, some of which shifted away from tightening. The U.S. Federal Reserve adjusted its interest rate by 1 percentage point, whereas European countries and Japan slowed their pace of monetary policy normalization. China lowered its deposit reserve ratio four times and released liquidity through various methods. Taiwan's Central Bank, due to mild price movements, maintained its discount rate at a relatively low 1.375%. Overall in 2018, due to numerous uncertainties, including the slowing momentum of global economic growth, divergent development of monetary policies, and U.S.–China trade conflict, financial markets experienced higher volatility and the overall banking business remained cautious.

2019 business plan outline and future development strategy

1. Strengthen core businesses and promote emerging businesses

CTBC Bank will continue to take the lead in developing its core businesses in the domestic market. We will provide Taiwanese enterprises with comprehensive cross-border services powered by our overseas branches and platform integration. We will also offer diverse, innovative products and services through our wealth management business to help our customers manage their personal finances within and outside Taiwan. In addition to continuing to expand its core businesses, CTBC Bank will also accelerate the development of emerging businesses in 2019. In our overseas markets, we will continue to cultivate local target customer bases and integrate our overseas branches to provide comprehensive cross-border financial services in order to solidify our

customer relationships. We will seek to become the go-to bank for small and medium-sized businesses in Taiwan by providing them with professional and effective services through industry segmentation. In addition, we will build an ever more professional workforce and establish a more highly customized service model in order to meet the wide-ranging financial needs of our high net worth customers.

2. Expand development in digitalization and innovative AI services

CTBC Bank will accelerate its digital transformation in 2019 by working toward three goals: establishing a position as the industry leader in digital customer experience, optimizing its internal processes to raise its operating leverage, and building a foundation for digital innovation. To this end, the Bank will strive to provide customers with convenient and innovative digital services, implement full digitalization of its internal processes, accelerate the digitalization of its branch offices, and provide customers with a whole new experience through seamless online–offline integration. In addition, we will develop our own Big Data-driven AI to promote innovative services and create new customer experiences.

3. Continue to ensure effective and efficient regulatory compliance

Since establishing the Compliance Division directly under the President in 2017, CTBC Bank has continued to invest in capacity building across the organization. In 2019, we will pursue the digital development of the compliance process to further improve its operational efficiency. Furthermore, we will promote compliance effectiveness in our overseas operations.

Going forward, CTBC Bank will continue to drive asset growth while implementing risk management to guard against the rising uncertainties clouding global economic growth. We will aim to create value for our shareholders by ensuring diverse revenue sources and robust asset quality.

Chairman: 

II. Company profile

A. Company overview

1. Date of establishment: March 14, 1966

2. History of the Bank

Our bank has been helping build customers' personal wealth and Taiwan's economy for more than 50 years. Established in 1966, CTBC Bank Co., Ltd. started business as China Securities Investment Corp. and soon grew into China Investment and Trust Co., Ltd. In 1992, it was restructured into a commercial bank with a business scope that has now grown to include deposits, loans, guarantees, forex services, offshore banking, trusts, credit cards, securities, bonds, derivatives, and online banking. Since May 17, 2002, it has been a subsidiary of CTBC Financial Holding Co., Ltd.

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, the Bank formally merged with Chinatrust Bills Finance Corp., sharply increasing the group's effectiveness. The transfer of 100% of The Tokyo Star Bank's shares was completed in June 2014, making CTBC Bank the sole shareholder of the Japanese institution. In 2017, we completed our 35.6% equity purchase of Thailand's LH Financial Group, becoming the first Taiwanese investment bank to own such a stake in a Thai financial institution.

During the past five decades, we have been guided by our business principles of integrity and caring, and have introduced many innovative services along the way. We were the first bank in Taiwan to issue credit cards, to set up a customer service center, and to provide foreign currency-compatible ATMs in the country's ubiquitous convenience stores.

This commitment to excellence and innovation has earned us the trust and business of individuals and companies nationwide, and we lead Taiwan's financial industry as a result. As of Dec. 31, 2018, our consolidated assets totaled NT\$3.96 trillion, the most of any privately owned bank in Taiwan.

In addition to its 152 domestic branches, CTBC Bank has the most extensive international network of any Taiwanese financial institution, with 114 overseas outlets located in the U.S., Canada, Japan, mainland China, Hong Kong, Singapore, India, Indonesia, Malaysia, Vietnam, Thailand, Myanmar, the Philippines, and Australia.

As we move forward and grow larger, "We are family" will remain our brand spirit. It informs our values of integrity, innovation, professionalism, teamwork, and caring as well as

our mission to protect and build our customers' wealth. You can see these values in action every day as we strive to strengthen our corporate governance, fulfill our corporate social responsibility, and create value for our customers, employees, shareholders, and community.

Our bank's aim is to cement its status as "Taiwan Champion, Asia Leader" by having the most effective corporate governance and being the most trusted financial institution among clients and investors alike.

3. Awards

Domestic awards

- *Reader's Digest* Trusted Brand Awards: Gold Awards for Banking, Wealth Management, Internet Financial Services, and Credit Card Issuance Bank
- *Wealth Magazine* 2018 Wealth Management Survey: Best Wealth Management, Best Digital Wealth Management, and Best Business Team
- *Wealth Magazine* 2018 Taiwan Financial Awards: Quality Award for Best Domestic Bank Image, Best Banking Service, Best Banking Product, and Best Fintech Banking
- Financial Information Service 2018 Financial Information System Annual Meeting: Best Promotion Excellence, and Best Service Innovation
- Joint Credit Information Center Awards 2018: Gold Award
- *Business Next Magazine* 2018 Business Innovation Awards: Best Product Innovation Bronze Award
- *Commercial Times* 2018 Taiwan Service Industry Survey: Domestic Bank Gold Medal
- *Excellence magazine* 2018 Excellence in Banking Awards: Best Innovation Award
- Banking Education Association of Taiwan 2017 International Banking Competitiveness Survey: Best Bank Award, Best Business Capability Award, Best Financial Operation Performance Award, and Leadership Vision and Business Strategy Award
- *MANAGERtoday* 2018 Brand Asia Awards: Merit Award in Financial Industry
- *Business Today* 2018 Wealth Management Banking Awards: Best Wealth Management, No. 1 in Best Product, No. 1 in Best Financial Associate Team, No. 2 in Best Marketing Innovation, No. 2 in Best Wealth Growth, No. 2 in Best Information Service, No. 3 in Best Digital Platform Experience
- *Business Today* Best Brand Award 2018: No. 1 in Banking
- Sports Administration: Sports Activist Award Sponsorship Gold Class and Long-Term Sponsorship
- *Global View Monthly* 2018 First Digital Financial Services Best Bank Awards: Excellence Award
- Taiwan Academy of Banking and Finance Best Practice Awards 2018: Best Overseas Development - Special Recognition, Best Corporate Finance - Recognition of Excellence, Best Wealth Management - Recognition of Excellence, Best Consumer Banking - Recognition of Excellence, and Best Risk Management - Recognition of Excellence

International awards

- *International Data Corp.*
Best Bank in Asia
- *Global Finance*
Best in Social Media Marketing and Services
Best Trade Finance Bank in Taiwan
Best Sub-Custodian Bank in Taiwan
Best Foreign Exchange Provider in Taiwan
- *Euromoney*
Best Private Banking Services Overall
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 Family Office Services in Taiwan
Best Philanthropic Advice in Taiwan
Best SRI/Social Impact Investing in Taiwan
Best Succession Planning Advice and Trusts in Taiwan
Best International Clients in Taiwan
Best Technology in Taiwan
- *The Asset*
Best Private Bank in Taiwan
Best Trade Finance Bank in Taiwan
Best Domestic Custodian in Taiwan
Best Retail Online Banking Experience, Taiwan
Best Retail Social-Media Banking Experience, Taiwan
Most Retail Mobile Banking Experience, Taiwan
Most Innovative ATM Project (“FX Machine”) Taiwan
Best Commodities Derivatives House, Taiwan
Best Derivatives House of the Year, Taiwan
Best Structured Products House, Taiwan
Best Structured Investment Product Award, Commodities, Taiwan
Highly Commended: Best FX Derivatives House, Taiwan
Commended: Best Rates Derivatives House, Taiwan
Best Debt Adviser in Taiwan
Best Loan Adviser in Taiwan
Best Acquisition Financing in Taiwan
Best Bank Capital in Taiwan

Best Bond/Best Sovereign Bond (Ministry of Finance, People's Republic of China US\$3 billion bonds - role of Bookrunner and lead manager)

Best LBO (Belle International Holding HK\$30 billion senior syndicated term loan facility, role of Arranger)

- *The Asian Banker*

Achievement in Credit Risk Management Award, Asia Pacific

Best Retail Bank in Taiwan

Best Frictionless Robo Advisory Service in Taiwan

Best Cash Management Bank in Taiwan

Best Sub-Custodian Bank in Taiwan

Best Transaction Bank in Taiwan

Best Corporate Trade Finance Deal in Taiwan

- *Private Banker International*

Best Customer Experience - Website, Asia Pacific

Best Use of Data and Analytics, Asia Pacific

Most Effective Wealth Management Platform in Greater China

Highly Commended: Best Private Bank in Taiwan

- *Retail Banker International*

Best Mortgage Offering, Asia Pacific

Best ATM Innovation, Asia Pacific

Highly Commended: Excellence in Loan Origination, Asia Pacific

Highly Commended: Excellence in Social Media- Customer Relations and Brand Engagement, Asia Pacific

- *Global Business Outlook*

Best Private Bank Taiwan 2018

- *Asiamoney*

Best Private Bank in Taiwan

- *FinanceAsia*

Best Bank in Taiwan

Best Private Bank in Taiwan

- *The Banker*

#151 of Top 1000 World Banks 2018

- *Brand Finance*

#181 of Top 500 Banking Brands

- World Branding Forum

Brand of the Year- National Tier

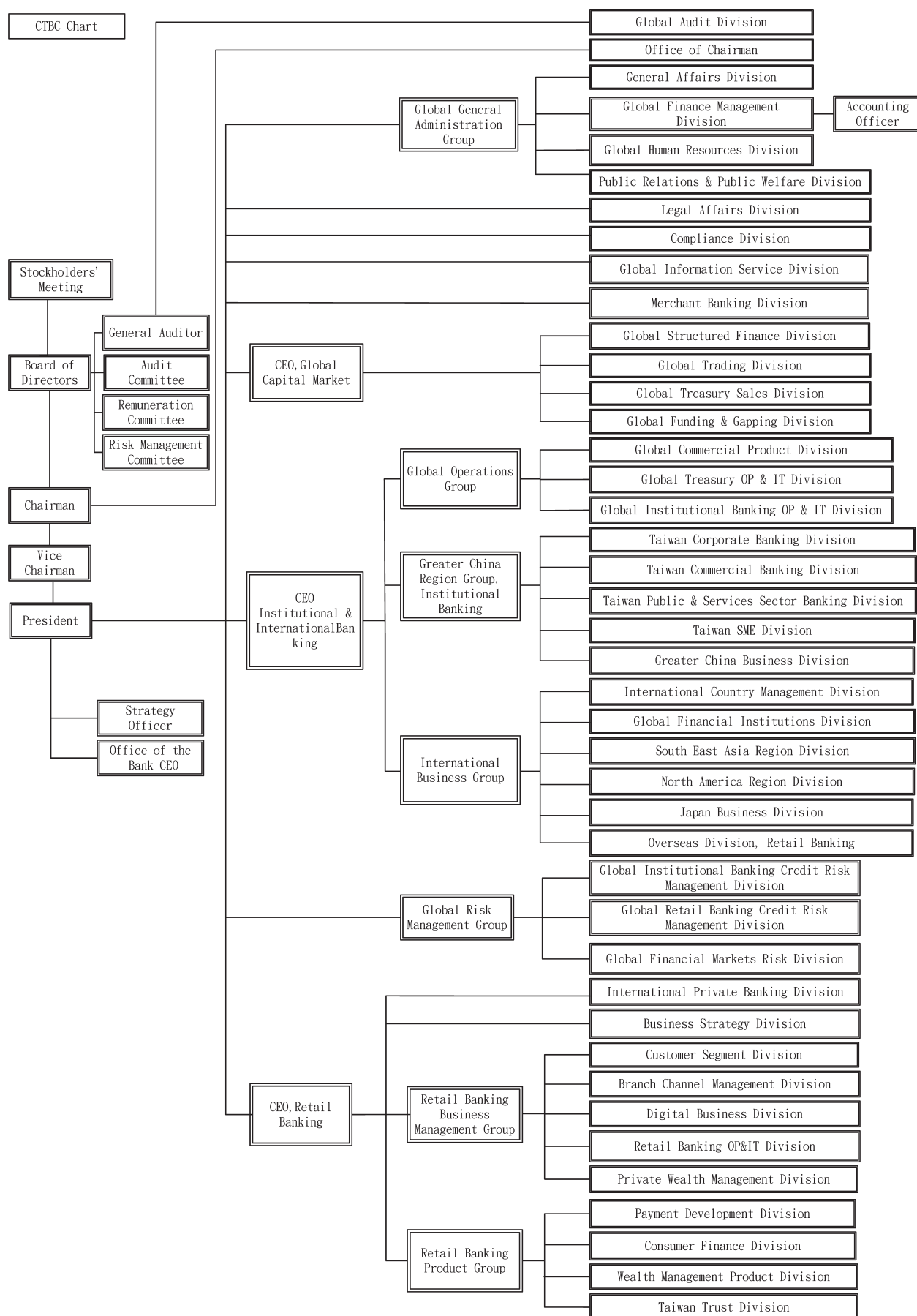
- *IFR Asia*

Taiwan Loan House

- *Asian Private Banker*
Excellence in Private Banking - Taiwan
- *Asian Banking & Finance*
Domestic Foreign Exchange Bank of the Year - Taiwan
Debt Deal of the Year, Taiwan
- *Mandatory Provident Fund Schemes Authority*
Good MPF Employer Award
Support for MPF Management Award
- Family Council of Hong Kong
Special Mention
Family-Friendly Employers
Award for Breastfeeding Support
- *HR Asia Magazine*
HR Asia Best Companies to Work for in Asia 2018 Awards - Taiwan

B. The organization

1. Organizational 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, 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) Director, The Tokyo Star Bank, Ltd.	Masters of Materials Science, University of Rochester, New York, USA
Vice Chairman	Ming-Shieh Li			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.	Bachelor of Economics, National Taiwan University
Director	Wen-Long Yen			Chairman, CTBC Financial Holding Co., Ltd. Chairman, Kainan Vocational High School Chairman, Kainan University Director, Wei Guo Real Estate Development Co., Ltd. Director, Wei Fu Investment Co., Ltd.	B.A. in Economics, Economics, Soochow University
Director	Thomas K.S. Chen			Director, CTBC Financial Holding Co., Ltd. Chairman, CTBC Investments Co., Ltd. Director, Taipei Financial Center Corp. Chairman, CTBC Leasing Co., Ltd. Chairman, CTBC Bank Corp. (USA) General Secretary, CTBC Financial Holding Co., Ltd. Chairman, CTBC Asset Management Co., Ltd.	Bachelor, Department of Public Finance and Taxation, National Chengchi University
Director	H. Steve Hsieh			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. Chairman, CTBC Securities Co., Ltd. Director, The Tokyo Star Bank, Ltd.	MBA of Commerce, University of Japan
Director	Teck-Chiang 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			Director, CTBC Securities Co., Ltd. Director, CTBC Securities Venture Capital Co., Ltd. Director, CTBC Business School Professor, Department of Accounting, Soochow University Director, CTBC Financial Holding Co., Ltd.	Ph.D. in Finance, George Washington University, USA
Director	Chun-Te Chiang			Director, ISTR Corp. Director, Long Chen Paper Co., Ltd. Systems 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, Legislative Yuan (Parliament)	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 Holding, which owns 14,068,571,872 shares and has 100% ownership of the Bank.

3. Significant shareholders

As of April 26, 2019

Institutional shareholder	Largest shareholders
CTBC Financial Holding Co., Ltd.	<ol style="list-style-type: none"> China Life Insurance Co., Ltd. (2.92%) Yi Kao Investment Co., Ltd. (2.84%) Fubon Life Insurance Co., Ltd. (2.21%) Government of Singapore (1.88%) Nan Shan Life Insurance Co., Ltd. (1.87%) Shin Kong Life Insurance Co., Ltd. (1.81%) CTBC Bank Trust Account for CTBC Financial Holding Employee Welfare Savings Committee (1.68%) Chuan Wei Investment Co., Ltd. (1.57%) Labor Pension Fund (1.57%) Bank of Taiwan Co., Ltd. (1.55%)

4. Major managers

Name	Title	Education	Significant experience
James Chen	President	MBA, The City University of New York, USA	Director, CTBC Bank Co., Ltd.
Larry Hsu	Senior executive vice president	Bachelor of Business Administration, National Taiwan University	EVP, CTBC Bank Co., Ltd.
James Y.G. Chen	Senior executive vice president	Master of Political Economy, Nankai University, China	President, Chang Hwa Bank
Albert Lee	Senior executive vice president	Master of Comparative Law, University of Illinois at Urbana-Champaign, USA	Chairman, Threadneedle Investments Hong Kong
Roger Kao	Senior executive vice president	Master of Science in Broadcast Journalism, Boston University, USA	EVP, CTBC Bank Co., Ltd.
Nick Y Huang	Senior executive vice president	MBA, National Taiwan University	Managing director, JPMorgan China
Amy Yang	Executive vice president	EMBA, National Taiwan University	SVP, CTBC Bank Co., Ltd.
Tony Yang	Executive vice president	MIBA, United States International University, USA	SVP, CTBC Bank Co., Ltd.
Frank Shih	Executive vice president	MBA, University of Texas at Austin, USA	SVP, CTBC Bank Co., Ltd.
Mingjohn Lee	Executive vice president	MBA, New York University, USA	SVP, CTBC Bank Co., Ltd.
Amy HC Lin	Executive vice president	Bachelor of Banking, National Chengchi University	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.

Name	Title	Education	Significant experience
Alex Chen	Executive vice president	Bachelor of Economics, Chinese Culture University	SVP, CTBC Bank Co., Ltd.
Matthew Liaw	Executive vice president	MBA, University of Wisconsin at Madison, USA	SVP, CTBC Bank Co., Ltd.
C.C. Huang	Executive vice president	MBA, Indiana University at Bloomington, USA	EVP, ABN AMRO Bank
Jack CP Wang	Executive vice president	MBA, The University of Western Ontario, Canada	Vice president, Citibank
Noor Menai	Executive vice president	MBA, University of Rochester, USA	CEO, Charles Schwab Bank
Derek Lo	Executive vice president	MBA, Madonna University, USA	SVP, CTBC Bank Co., Ltd.
CC Hong	Executive vice president	International Trade, Chihlee College of Business	SVP, CTBC Bank Co., Ltd.
Jason Chen	Executive vice president	Bachelor of Business Administration, Feng Chia University	SVP, CTBC Bank Co., Ltd.
Friedman Wang	Executive vice president	MIBA, National Taiwan University	SVP, CTBC Bank Co., Ltd.
Retinna Sung	Executive vice president	Bachelor of Law, National Chung Hsing University	SVP, CTBC Bank Co., Ltd.
William Chu	Executive vice president	Bachelor of Marine Transportation, National Chiao Tung University	SVP, CTBC Bank Co., Ltd.
Ya-Ling Chiu	Executive vice president	MBA, Minnesota-Twin Cities University, USA	SVP, CTBC Bank Co., Ltd.
Evan Chang	Executive vice president	Bachelor of Accounting, Tunghai University	SVP, CTBC Bank Co., Ltd.
Jerry Shaw	Executive vice president	Bachelor of Business Administration, Tamkang University	VP, CTBC Bank Co., Ltd.
Max Lin	Executive vice president	MBA, University of Illinois at Urbana-Champaign, USA	Director, Deutsche Bank
Weitzu Chao	Executive vice president	Master of Statistics, National Chengchi University	SVP, CTBC Bank Co., Ltd.
Alex Lu	Executive vice president	Master of Laws, Harvard University, USA	SVP, CTBC Bank Co., Ltd.
Sean Tang	Executive vice president	Master of Laws, National Chengchi University	SVP, CTBC Bank Co., Ltd.
Wayne Hsu	Executive vice president	MBA, The University of Michigan, USA	Managing director, Citibank Taiwan
David Swei	Executive vice president	MBA, University of Texas at Dallas, USA	SVP, CTBC Bank Co., Ltd.
Sting Yang	Senior vice president	Bachelor of Accounting, Fu Jen Catholic University	VP, CTBC Bank Co., Ltd.
Anderson Chen	Senior vice president	Bachelor of Business Administration, Soochow University	VP, CTBC Bank Co., Ltd.

Name	Title	Education	Significant experience
Li Juan	Senior vice president	MBA, Syracuse University, USA	VP, CTBC Bank Co., Ltd.
Richie Chen	Senior vice president	Secretarial Science, Tamsui Institute of Business Administration	VP, CTBC Bank Co., Ltd.
Frank Hsu	Senior vice president	Master of International Business, National Chengchi University	VP, CTBC Bank Co., Ltd.
John Yang	Senior vice president	MBA, University of Texas at Arlington, USA	VP, CTBC Bank Co., Ltd.
Boshan Hsu	Senior vice president	MBA, Indiana University Bloomington, USA	VP, CTBC Bank Co., Ltd.
Morris Kao	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.
Peter Hsiao	Senior vice president	MBA, National Taiwan University	VP, CTBC Bank Co., Ltd.
Sam Lin	Senior vice president	EMBA, National Taiwan University	VP, CTBC Bank Co., Ltd.
Steve Peng	Senior vice president	Bachelor of Cooperative Economics, Feng Chia University	VP, CTBC Bank Co., Ltd.
Shirley Yang	Senior vice president	Master of Arts in Advertising, Michigan State University, USA	VP, CTBC Bank Co., Ltd.
Pauline Kao	Senior vice president	MBA, University of Pennsylvania, USA	Senior compliance manager, American Express Co.
Eric Kw Wu	Senior vice president	EMBA, National Taiwan University	VP, CTBC Bank Co., Ltd.
Charleen Sung	Senior vice president	MBA, New York University, USA	VP, CTBC Bank Co., Ltd.
Austin Chiang	Senior vice president	MBA, National Taiwan University	Principal, Boston Consulting Group
Chingyi Wu	Senior vice president	Master of Commerce, Meiji University, Japan	SVP, Taishin International Bank Co., Ltd.
Tony Huang	Senior vice president	Bachelor of Banking, National Chengchi University	VP, CTBC Bank Co., Ltd.
Fred Hsu	Senior vice president	MBA, Tatung University	VP, CTBC Bank Co., Ltd.
Morris Wu	Senior vice president	MBA, Tatung University	VP, CTBC Bank Co., Ltd.

III. Business overview

A. Business performance

1. Scope of business

(1) Institutional banking, capital markets, 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 cross-border financial services by leveraging our global network, with a focus on customers in Greater China, Southeast Asia, North America, and Japan. Regarding overseas retail banking, we provide our customers with various financial products and services based on their needs and development stage as well as the demands 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 our 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 and mechanisms for third-party payments, bill payments, and cross-border transactions.

Revenue breakdown (Note)

Unit: NT\$ million

Revenue source	Amount	Percentage
Institutional banking, capital markets, and overseas business	50,536	53%
Retail banking	42,499	45%
Other	2,342	2%
Total	95,377	100%

Note: On a consolidated basis

2. Business discussion

(1) Institutional banking, capital markets, and overseas business

CTBC Bank's institutional banking and capital market 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 as follows:

a. Transaction banking

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 2018, reaching 6.6% and 8.9%, 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 the past five years.

With the objective of providing our corporate clients a differentiated treasury management experience, CTBC Bank is continuing to develop digital transaction services across markets. We were the first bank in Taiwan to receive certification for SWIFT's global payments innovation initiative. As a result, we are now able to

provide customers with end-to-end tracking of their cross-border payments in real time. Leveraging our Bank's ubiquitous ATMs, we launched electronic direct debit authorization, largely reducing customers' payment authorization time.

CTBC Bank also provides a comprehensive range of channels to meet customers' needs. For instance, having noted the popularization of mobile phones and the growing use of mobile banking services, we upgraded our app services for Taiwan in 2018 and will continue doing so in 2019, with new and improved inquiry, transaction, authorization, and notification features. We are now planning to launch apps overseas to optimize our services for users in each market where we're active. Moreover, as many of our customers desire the integration of their information and cash flows, we are developing AP-to-AP service that can integrate enterprise resource planning into our banking system. In China and India, we have continued to strengthen our payment infrastructure in order to increase the efficiency and quality of our payment processes.

b. Custody/corporate trust business

Our corporate trust business continued to grow in 2018. CTBC Bank's assets under custody from all segments totaled NT\$2.70 trillion (US\$87 billion) at the end of 2018. The revenue of our corporate trust business showed a solid and consistent performance in 2018, reaching a record high of NT\$1.19 billion (US\$38.4 million). In terms of asset size, the Bank retained its No. 1 position in the transfer agent and employee benefit business.

c. Syndicated loans

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 private equity-sponsored leveraged financing, merger and acquisition financing, and aviation, shipping, real estate, and project financing. The Bank has developed extensive networking and firm partnerships with key players in the region and with its major clients.

d. Fixed income underwriting

As one of the leading bond underwriters in Taiwan, CTBC Bank has participated in numerous high-profile transactions since the inception of the country's international bond market. In 2018, we had another record year in fixed income underwriting, with a number of successful issuances for regional deals. In addition, CTBC Bank remains in the top spot among its Taiwanese peers in Asian USD bond underwriting. With our strengthened debt capital market franchise together with our loan syndication business, we are positioned to better serve our clients across Asia with comprehensive corporate finance solutions.

e. Treasury and derivatives

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 instruments, and derivative services. In 2018, we continued to invest in product development and IT systems, which helped our overseas branches enhance their risk management and reduce costs for clients.

(2) Retail banking

CTBC Bank remains the pioneer in retail banking service innovation. In addition to enjoying a significant market share, we received 54 international and domestic awards in 2018, including our 14th consecutive Best Private Bank in Taiwan award from *Euromoney* and 12th consecutive Best Retail Bank in Taiwan award from *The Asian Banker*.

With the Bank's competitive advantages in branding 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 18%, respectively, from 2015.

a. Wealth management

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

b. Loan services

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

c. Payment services

As part of its efforts to provide customers with a convenient payment experience, CTBC Bank has continued working in partnership with various retailers and mobile payment platforms. Our customers are now able to utilize payment tools such as cards and account linking for a seamless payment experience both online and offline.

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 4 million and 2.5 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 more than 5,800 machines nationwide, we top the list in terms of interbank withdrawal transactions, accounting for approximately 33% of market share. We are also constantly innovating ATM functionality, such as with the addition of biometric authentication.

B. Employees

As of	Dec. 31, 2018		Dec. 31, 2017	
Number of employees	11,536		11,232	
Average age (years)	38.3		38.1	
Average tenure at CTBC (years)	9.6		9.5	
Education	Employees	Percentage	Employees	Percentage
Graduate school or higher	2,593	22.5%	2,542	22.7%
University/college	8,160	70.8%	7,950	70.8%
Senior high school	743	6.4%	691	6.1%
Below senior high school	40	0.3%	49	0.4%

C. Social responsibility

1. CSR implementation

As an organization committed to sustainable business development, CTBC Bank has long worked to promote CSR and strengthen its corporate governance, environmental protection endeavors, and social participation. In 2007, CTBC Holding published its first annual CSR report. In another industry first for Taiwan, we received ISO 50001 Energy Management certification in 2012. We stayed at the leading edge of the field in 2016, when we adopted integrated reporting principles, and in 2017, too, when we kept pace with the global industry by responding to the United Nations' Sustainable Development Goals. In addition, the CSR report issued in 2018 conformed to GRI standards, again in line with current international best practices. Over the years, our long-term CSR efforts have been widely and warmly recognized by professional organizations at home and abroad.

Also in 2018, CTBC Holding remained a constituent stock of the Dow Jones Sustainability Indices' Emerging Markets Index, was selected as a constituent stock of the Morgan Stanley Capital International ESG Leaders Indexes and the FTSE4Good Emerging Index, and

received a Leadership A- rating from CDP (formerly the Carbon Disclosure Project). Furthermore, at last year's Taiwan Corporate Sustainability Awards, CTBC Holding Chairman Wen-Long Yen was awarded the Enterprise Sustainability Elite Award—the ceremony's highest honor. All of these reflect the tangible results delivered by our implementation of CSR, corporate governance, and sustainable development. In addition, in the 2018 Best Taiwan Global Brands survey conducted jointly by the Ministry of Economic Affairs' Industrial Development Bureau and brand consultancy Interbrand, CTBC Holding was for the third consecutive time ranked as the most valuable brand in Taiwan's financial sector. The brand value supremacy of our holding company and bank are true points of pride.

(1) Good governance

To strengthen our corporate governance and enhance our business performance, we introduced an independent director system in 2008. After the re-election of the Board's directors at the end of 2016, independent directors accounted for three of its 12 directors. Through the diverse professional backgrounds and independence of these directors, our corporate governance has been demonstratively strengthened. To reinforce the Board's management and supervisory functions, three committees—the Audit Committee, Remuneration Committee, and Risk Management Committee—have been established under the Board of Directors to help maximize its effectiveness. At the end of each year, all directors are invited to conduct a self-assessment of the Board's operation and of individual performance.

In 2006, we launched a “professional management system” to ensure adherence to the principle of the separation of operations and supervision. Accordingly, the President leads the management team and is responsible for business performance whereas the Chairman and the Board of Directors supervise the management team, with no directors concurrently serving in a managerial position.

To keep pace with international trends and the expectations of the competent authorities, the Corporate Governance Best Practice Principles were revised in 2018 to stipulate that the term of office of independent directors may not exceed three years. Looking forward, we are committed to continuing to improve our corporate governance, strengthen our information disclosure, and meet international corporate governance standards.

The Bank's parent company, CTBC Holding, has also established specific management policies and bodies, including a group-wide Sustainability Committee. The committee is chaired by the President of the Company, is supervised by independent directors, and has the presidents of subsidiaries as its members. With a scope including corporate governance, employee care, investment commodities, social participation, and environmental sustainability, it focuses on not only the interests of stakeholders but also the planning and implementation of measures to benefit our environment, society, and governance.

(2) Social initiatives

We lead the industry in not only business innovation and management but also charitable campaigns aimed at eradicating social problems in Taiwan. CTBC Holding has been recognized as a role model in social care as it has launched numerous groundbreaking social welfare programs over the years, with its 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 a Taiwanese enterprise and marked the start of our commitment to public welfare. This decadeslong commitment was inspired by a simple love of children. Back in 1985, founder Jeffrey Koo Sr. felt compelled to make a difference in the lives of disadvantaged children, spurring him to found Light Up a Life. All the collected donations were given to social welfare organizations working with children from remote villages.

Light Up a Life has continued for the 34 years since. It is the longest-running charitable public welfare activity held by any Taiwanese enterprise and is widely considered the most effective platform for the public to help vulnerable children. It has so far raised nearly NT\$2 billion, helping more than 450,000 children to escape poverty and fulfill their dreams. It is hoped that, as adults, everyone helped by the program as a child can also lend a hand to those in need, creating a cycle of compassion and volunteering.

Founded in 2004, the CTBC Charity Foundation is dedicated to building a happy tent for children in remote mountainous areas and outlying islands. To provide a safe and hopeful living environment for them, the foundation promotes the Taiwan Dream Project, which provides educational and nutritional services for children in remote communities. The initiative, which has so far helped build 26 Taiwan Dream Project sites, works by marshaling 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. A social return on investment evaluation of the first Taiwan Dream Project site, in the Dahu Community of Changhua County's Bitou Township, found that every NT\$1 invested generated NT\$4.26 in social value.

In addition to helping disadvantaged children, we also help parents start their own businesses to escape poverty. Inspired by the microfinancing concept behind 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 Holding subsequently introduced the CTBC Caring Shop brand to promote products created through CPAP microloans. Since 2011,

CPAP has assisted 275 families, who have gone on to start successful businesses and escape poverty. In 2018, the CTBC Charity Foundation received the Global Views Monthly Corporate Social Responsibility Award, Taiwan Enterprise Sustainability Award, and National Excellent Enterprise Volunteer Team Award for its long-term efforts to support the disadvantaged.

In terms of overseas aid, the CTBC Charity Foundation embraces the philosophy that poverty can be overcome through education. As such, in mainland China in 2013, it launched the Caring for China's Next Generation on Campus program alongside the Caring for China's Next Generation Working Committee and the Social Welfare Foundation for China's Next Generation Fund. Priority has been given to underdeveloped, remote, and ethnic minority areas. A school has been selected as an "educational demonstration site" in each area, with funds provided to purchase teaching equipment. The project has been a concrete demonstration of cross-strait charitable and public welfare cooperation over the past six years; as of publication, 44 pilot program sites had been set up, and over 53,000 underprivileged students now have access to more learning resources as a result. Learning and living conditions have been greatly improved in general, earning plaudits on both sides of the strait.

Back at home, we also actively support public welfare through sports. It is the first enterprise to invest in all five levels of baseball—from the children's game to little league to the pro competition—as it endeavors to improve Taiwan's overall competitiveness in the sport by providing sponsorship and organizing competitions. In 2018, the Company examined the social return on investment for its sponsorship of the CTBC Brothers pro baseball team, finding that every NT\$1 invested produced NT\$17.59 in social value. This was the highest return in the sports field ever certified by Social Value International. CTBC Holding is also fostering women's golf talent and sponsoring golf tournaments to promote the development of the game in Taiwan. We combined our sports and public welfare efforts with a special fundraiser in 2018, during which golf and baseball players donated personal items for sale to raise funds for charity as well as encouraged the public to donate funds of their own.

Drug users in Taiwan have become younger in recent years, which has also increased the intrusion of drugs into schools. To address this, we 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 organization specializing in drug education, the Foundation has served as a crucial drug awareness platform for the government and the public. It has also partnered with government agencies and NGOs worldwide, including the justice and education ministries of Taiwan, the Drug Enforcement Administration Educational Foundation of the United States, and the China Narcotics Control Foundation of mainland China.

To raise children's awareness of the dangers of drugs in an engaging manner that breaks free of conventional, low-impact methods, the Company has utilized interactive 3D technology and documentaries as part of countrywide special exhibitions, reaching more than 200,000 people in the process. In 2017, we collaborated with the Ministry of Justice's Agency of Corrections to launch a program that improves the facilities and conditions in which incarcerated mothers raise their children and that provides early childhood courses on drug prevention. In 2018, we held international seminars with the Ministry of Justice, inviting experts and scholars from the United States, Germany, Japan, and Taiwan to share their experiences. For its efforts, the CTBC Anti-Drug Educational Foundation received numerous CSR awards at home and abroad in 2018, including the *Global Views Monthly* Corporate Social Responsibility Award, Asian Corporate Social Responsibility Award, and Taiwan Enterprise Sustainability Award, as well as recognition from the Ministry of Education.

We firmly believe 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, we established southern Taiwan's first English-language experimental high school, CTBC International Academy, to provide an alternative to the traditional approach to education.

CTBC Holding's founder, Jeffrey Koo Sr., believed there was a direct relationship between a country's living standard and its appreciation of art. Indeed, we have long dedicated a great deal of effort to supporting the arts, particularly in making diverse, world-class art exhibitions easily accessible to the public. We founded the CTBC Foundation for Arts and Culture in 1996, and the CTBC Arts Festival was launched in 2015 with the mission of bringing culture and the arts to every corner of Taiwan. The festival has since organized various events including the New Stage Art Festival, Learning From the Masters Lecture, and Dream + Fulfillment Project. It has been a recipient 12 times at the Art and Business Awards and has won the Arts Education Contribution Award from the Ministry of Education.

In addition to efforts to improve society through external arms and means, we have also implemented the Good Deeds Leave program—the first of its kind among Taiwan's financial holding companies—to encourage a culture of volunteering within CTBC Holding. Currently, we have nearly 2,300 volunteers providing assistance such as tutoring, financial management, English classes, and anti-drug education. These volunteers have already put in a total of more than 150,000 hours.

CTBC Holding has always firmly believed that talented people are the key to an enterprise maintaining its competitive advantage. In addition to providing competitive remuneration, industry-leading benefits, education, training, and a fair promotions system, we also attach great importance to human rights, gender equality, and effective labor communication channels. In 2018, it formulated a Human Rights Policy as well as human rights risk assessment and management procedures, emphasizing its commitment to actively support international human rights conventions.

We also understand the importance of providing a comfortable and friendly work environment. In doing so, we focus on three aspects in particular: risk-based thinking, health prevention, and a culture of safety. In 2018, we passed ISO 45001 Occupational Safety and Health Management System certification. Going forward, this will power our efforts to work with suppliers and surrounding enterprises to form an ecosystem of safety and sustainability. We also strive to provide a happy and equal-opportunity work environment that is a force for good in not only our employees' professional lives but their personal ones, too, making for a better wider society in which enterprises, employees, and the community work together toward a brighter future.

“We are family” is more than a slogan—it is the spirit of our brand, reflecting that we care for our employees and customers in the same way we do our family. This care in turn spreads across our community and country, like ripples in a pond, as we continue to expand our efforts in the five areas of social welfare, sports and physical education, drug awareness, education, and culture and the arts. We devote great resources to creating virtuous 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 a “Green Policy, Green Future,” CTBC Holding has built upon the foundations of energy efficiency, carbon reduction, resource management, and green buildings to expand its 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 our 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 a Diamond-grade Green Building Label under Taiwan's EEWB building certification system. 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 site's public spaces. However, we are still working to shrink our carbon

footprint further, such as by purchasing products that meet strict standards in environmental protection, energy efficiency, water conservation, and green construction. For these efforts, we have received the Outstanding Contribution to Green Purchasing by a Private Enterprise award from Taipei City Government's Department of Environmental Protection for 10 consecutive years.

CTBC Holding also actively integrates CSR considerations into its own business practices and offerings. We launched our first qualified green bond in Taiwan in 2017, which was over-subscribed by investors. In 2018, we served as the financial adviser for the cooperation between an offshore wind power developer, the Copenhagen Infrastructure Fund of Denmark, and local banks, and spared no effort in supporting endeavors in green energy and environmental protection. We signed the Equator Principles in January 2017, becoming the 94th financial institution in the world to do so and demonstrating our determination to ensure responsible lending and sustainable finance. In the future, credit granting cases will be included in the verification of the Equator Principles and CTBC Bank will work diligently with its customers to fulfill its responsibility to the environment and society.

Climate change is a critical global challenge, and CTBC Holding has taken concrete actions to realize its commitment to protecting the planet. In 2012, it became one of the first Taiwanese financial institutions to sign on to the CDP. In the same year, we were again one of Taiwan's first financial institutions to be granted ISO 50001 Energy Management certification. In 2015, we 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. Our certification scope expanded further in 2018, growing to include 175 branches in Taiwan. That same year, the subsidiaries of CTBC Holding earned ISO 14064-1 Greenhouse Gas Emissions Reporting certification, including all CTBC Bank branches in Taiwan and its Hong Kong branch, as well as all Taiwan Life branches in Taiwan, its Beijing representative office, and its Vietnam representative office, and CTBC Securities, CTBC Investments, CTBC Capital, Taiwan Lottery, CTBC Asset Management, and CTBC Security.

We pay particular attention to energy efficiency, and these efforts have been honored with an Outstanding Energy Saving Performance Award from the Ministry of Economic Affairs and an R.O.C. Enterprise Environmental Protection Award from Taiwan's Environmental Protection Administration. In addition, we were the first financial institution in Taiwan to obtain renewable energy certification from the Ministry of Economic Affairs.

Our brand has always been our most important intangible asset. In 2018, CTBC Holding won 205 top domestic and foreign awards recognizing its efforts in business performance, brand image, CSR, and sustainability. Going forward, 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 Bank as well as the holding company as a whole will strive to create value for its customers, employees, shareholders, suppliers, and society as it develops its “Taiwan Champion and Asia Leader” brand and aspires to be the most reliable financial institution with the strongest governance.

IV. Dividend policy and earnings distribution

A. Dividend policy and execution status

1. Dividend policy:

As a subsidiary of CTBC Holding, 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.

Regarding the 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 offset losses, if any. It shall then set aside 30% of the earnings as a legal reserve and subsequently, per applicable laws and regulations, appropriate or reverse a special reserve. The balance, together with the undistributed retained earnings of the previous year, should be the distributable earnings. The Board of Director should present a proposal of earning distribution at a shareholders' meeting for resolution. Before the legal reserve reaches the Bank's paid-in capital of the Bank, the distributed cash dividends shall not exceed 15% of the Bank's paid-in capital. If the Bank's accumulated legal reserve has reached the Bank's paid-in capital, or the Bank has met the required finance and business operation standard as defined by the competent authority in Paragraph 2 of Article 50 of the Banking Act and has set aside legal reserve according to the Company Act, it would not be limited by the legal reserve and the cash earning distribution ceiling.

2. The Board has approved the earnings appropriation proposal for 2018. It is proposed that a total of NT\$24,515,893 thousand from the retained earnings of the year be distributed in cash and in stock according to the record shown in the shareholder book on the distribution record date. The dividends are NT\$1.5 per share in cash and NT\$0.2426 per share in stock, total common stock dividends are NT\$1.7426 per share. In the event of a capital increase or decrease affecting the number of outstanding shares on the distribution record date, the Chairman shall be authorized to handle relevant matters.

B. Impact of proposed stock dividend on the Bank's business performance and EPS: No financial forecast was announced for the Bank in 2019; therefore, no such disclosure is applicable.

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

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

The employee 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 employee compensation in the Articles of Incorporation. However, the compensation 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:

Estimation of the fair value of employee compensation is recognized 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. However, if the later actual allocation amount pursuant to a resolution of the Bank's Board of Directors is different 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 of 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 that amount and the estimated figure for the fiscal year for which these expenses are recognized, the discrepancy, its cause, and the status of treatment:

- a. Compensation: The cash compensation of employees was NT\$17,022 thousand.
- b. Discrepancy: The accrued expenses of employee compensation totaled NT\$16,997 thousand. The discrepancy between the actual allocation amount and accrued expenses for employee compensation was NT\$25 thousand.
- c. Reason: The discrepancy was because the monthly closing number of net income before tax that was used to estimate accrued expenses differed from the actual closing number of net income before tax at the end of the accounting period.
- d. Treatment: The difference will be treated as a change in accounting estimates for 2019.

- (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:

No employee compensation was distributed in the form of stock; therefore, no such disclosure is applicable.

4. The actual distribution of employee, director, and supervisor compensation for 2017 (with an indication of the number of shares, monetary amount, and stock price of the shares distributed), and, if there is any discrepancy between the actual distribution and the recognized employee, director, or supervisor compensation, additionally the discrepancy, cause, and how it is treated:

	2017			
	Distributed with the resolution from the Annual General Meeting	Recognized expenses	Difference (Note)	Reason
Distribution status:				
A. Employee compensation distributed in the form of cash	NT\$17,052 thousand	NT\$17,083 thousand	NT\$31 thousand	The difference was because the monthly closing number of net income before tax used to estimate accrued expenses differed from the audited one.
B. Employee compensation distributed in the form of stock				
(1) shares,	-	-	-	
(2) amount, and	-	-	-	
(3) stock price	-	-	-	
C. Remuneration to directors and supervisors	-	-	-	

Note: The difference, amounting to NT\$31 thousand, was regarded as changes in accounting estimates and recognized as a profit or loss for 2018.

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 2018, the Bank has duly complied with the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" in implementing our internal control system, risk management mechanism, regular reports to the Board of Directors and Audit Committee; and conducting audits by an independent audit department.

For the concurrent securities business, the Bank has evaluated the effectiveness of the design and implementation of the relevant internal control system, in accordance with evaluation requirements under the "Regulations Governing the Establishment of Internal Control Systems by Service Enterprises in Securities and Futures Markets", by the Securities and Futures Bureau of Financial Supervisory Commission.

For the concurrent insurance agent business, the Bank has evaluated the effectiveness of the design and implementation of the related internal control system, with required evaluation components included at a minimum: 1.control environment, 2.risk assessment, 3.control activities, 4.information and communication, and 5.monitoring activities, according to the "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies". Based on the Bank's evaluation, we confirm effectiveness of the design and implementation of the internal control system (including soundness of operations, reliability of reports, and compliance to relevant laws and regulations) during the aforementioned period, and that reasonably ensure the above requirements have been achieved.

Under prudent evaluation, we hereby certify that, with exception to items listed in the attachment, the Bank's compliance with relevant laws and regulations and internal controls have been effectively implemented for the year 2018. This statement will form part of the Bank's annual report and prospectus to be disclosed to the public, and we are liable for false information or omissions in its material contents under Articles 20, 32, 171, and 174 of the Securities and Exchange Act; and relevant articles under the Insurance Act.

This statement was approved by the Board meeting on 2019/ 2 / 27 .

Sincerely yours,

Chairman



President



General Auditor



Chief Compliance Officer



CTBC Bank Co., Ltd.
Issues and Corrective Actions for Internal Control Statement
As of Dec. 31, 2018


Issue for improvement	Corrective actions	Target completion date
1. It was found that an employee of CTBC Bank had taken advantage of the position to access and abuse the financial information of a certain deposit account. As a consequence, the Financial Supervisory Commission imposed a reprimand on the Bank and required the Bank to dismiss the employee due to the dishonest behavior.	(1) CTBC Bank strengthened and reiterated relevant operation procedures. (2) The employee was dismissed.	Completed
2. The People's Bank of China imposed an administrative fine of RMB 225 thousand on CTBC Bank Shanghai Branch due to the insufficient balance of its required reserves for RMB deposits.	CTBC Bank Shanghai Branch enhanced and reiterated relevant control mechanism.	Completed

VI. Audit Committee Report on last year's financial statement

Audit Committee 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, 2018, 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 26, 2019

VII. Head office and domestic branches

A. Domestic branches

Branch	Address	Telephone
Head Office (Banking Department)	1F., No. 168, Jingmao 2nd Rd., Nangang Dist., Taipei City 115, Taiwan (R.O.C.)	+886-2-33271688
Jhancian Branch	1F., No. 4, Sec. 1, Zhongxiao W. Rd., Jhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)	+886-2-23113598
Huashan Branch	1F., No. 55, Sec. 1, Zhongsiao E. Rd., Jhongzheng Dist., Taipei City 100, Taiwan (R.O.C.)	+886-2-23413000
Dongmen Branch	1F., No. 213, Sec. 2, Sinyi Rd., Jhongjheng Dist., Taipei City 100, Taiwan (R.O.C.)	+886-2-23958000
Chengjhong Branch	1F., No. 83, Sec. 1, Chongcing S. Rd., Jhongjheng Dist., Taipei City 100, Taiwan (R.O.C.)	+886-2-23818740
Daan Branch	1F., No. 102, Sec. 2, Roosevelt Rd., Jhongjheng Dist., Taipei City 100, Taiwan (R.O.C.)	+886-2-33651988
Mincyuan West Road Branch	1F., No. 104-1, Mincyuan W. Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)	+886-2-25572919
Chengde Branch	1F., No. 17, Sec. 1, Chengde Rd., Datong Dist., Taipei City 103, Taiwan (R.O.C.)	+886-2-25562088
Sihu Branch	1F., No. 244, Sec. 1, Neihu Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)	+886-2-27999588
Jhongshan Branch	1F., No. 106-2, Sec. 2, Jhongshan N. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25235222
Minsheng Branch	1F., No. 58, Sec.1, Minsheng E. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25641818
East Minsheng Branch	1F., No. 51, Sec. 3, Minsheng E. Rd., Zhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25093656
Dazhi Branch	1F., No. 638, Mingshuei Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-85026002
Chengbei Branch	1F., No. 218, Songjiang Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25623789
Nanjing East Road Branch	1F., No. 16, Sec. 1, Nanjing E. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25232238
Chengdong Branch	1F., No. 88, Sec. 2, Nanjing E. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25677377
Longjiang Mini Branch	1F., No. 65, Sec. 3, Nanjing E. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2-25158811
Chang An Branch	No. 26, Fusing N. Rd., Jhongshan Dist., Taipei City 104, Taiwan (R.O.C.)	+886-2- 27785881
Jhunglun Branch	1F., No. 85, Sec. 4, Bade Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)	+886-2-27672669
Fujin Branch	1F., No. 165, Sec. 5, Minsheng E. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)	+886-2-27602766
Sisong Branch	1F., No. 161, Sec.5, Nanjing E. Rd., Songshan Dist., Taipei City 105, Taiwan, (R.O.C.)	+886-2-37655588
Fubei Branch	1F., No. 363, Fusing N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)	+886-2-87705566
Dunbei Branch	1F., No. 122, Dunhua N. Rd., Songshan Dist., Taipei City 105, Taiwan (R.O.C.)	+886-2-27133322
Renai Branch	1F., No. 341, Sec. 4, Renai Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-27754600
Anhe Branch	1F., No. 195, Sec. 2, Anhe Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-27386171
Yanji Branch	1F., No. 298, Sec. 4, Jhongsiao E. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-27716000
Jhongsiao Branch	1F., No. 71, Sec. 4, Jhongsiao E. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-27520310
Sinyi Branch	1F., No. 236, Sec. 4, Sinyi Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-27079977
Fusing Branch	1F., No. 251, Sec. 1, Dunhua S. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-27771988
Dunnan Branch	1F., No. 68, Sec. 2, Dunhua S. Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-23253616
Gungguan Branch	1F., No. 311, Sec. 3, Roosevelt Rd., Daan Dist., Taipei City 106, Taiwan (R.O.C.)	+886-2-23623377
Wanhua Branch	1F., No. 92, Sec. 2, Changsha St., Wanhua Dist., Taipei City 108, Taiwan (R.O.C.)	+886-2-23898188
Yongji Branch	1F., No. 18, Yongji Rd., Sinyi Dist., Taipei City 110, Taiwan (R.O.C.)	+886-2-27617999
Songshan Branch	1F., No. 550, Sec. 5, Jhongsiao E. Rd., Sinyi Dist., Taipei City 110, Taiwan (R.O.C.)	+886-2-23466711
Shinfu Branch	1F., No. 9, Songgao Rd., Sinyi Dist., Taipei City 110, Taiwan (R.O.C.)	+886-2-27221668
Tianmu Branch	1F., No. 90, Sec. 6, Jhongshan N. Rd., Shihlin Dist., Taipei City 111, Taiwan (R.O.C.)	+886-2-28322888

Branch	Address	Telephone
Shihlin Branch	1F., No. 307, Jhongjheng Rd., Shihlin Dist., Taipei City 111, Taiwan (R.O.C.)	+886-2-28839900
North Tianmu Branch	1F., No. 10, Tianmu W. Rd., Shilin Dist., Taipei City 111, Taiwan (R.O.C.)	+886-2-28766100
Jiantan Branch	1F., No. 150, Sec. 4, Chengde Rd., Shilin Dist., Taipei City 111, Taiwan (R.O.C.)	+886-2-28827979
Shihpai Branch	1F., No. 46, Sec. 2, Shihpai Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)	+886-2-28213366
Beitou Branch	1F., No. 217, Guangming Rd., Beitou Dist., Taipei City 112, Taiwan (R.O.C.)	+886-2-28983039
Rueiguang Branch	No. 514, Sec. 1, Neihu Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)	+886-2-27985600
Chenggong Branch	1F., No. 161, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)	+886-2-87911686
Neihu Branch	1F., No. 358, Sec. 4, Chenggong Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)	+886-2-27938668
Donghu Branch	No. 460, Sec. 5, Chenggong Rd., Neihu Dist., Taipei City 114, Taiwan (R.O.C.)	+886-2-26312288
Mujha Branch	1F., No. 69, Sec. 3, Mujha Rd., Wunshan Dist., Taipei City 116, Taiwan (R.O.C.)	+886-2-29375890
Wunshan Branch	1F., No. 248, Sec. 4, Sinhai Rd., Wunshan Dist., Taipei City 116, Taiwan (R.O.C.)	+886-2-29335358
Jingmei Branch	No. 405, Sec. 6, Roosevelt Rd., Wenshan Dist., Taipei City 116, Taiwan (R.O.C.)	+886-2-29329838
Keelung Branch	1F., No. 150, Sinyi Rd., Sinyi Dist., 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 Dist., New Taipei City 220, Taiwan (R.O.C.)	+886-2-89611500
Banciao Branch	1F., No. 187, Sec. 1, Wunhua Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.)	+886-2-29606600
Chongcing Branch	1F., No. 290, Chongcing Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.)	+886-2-29634567
Sinbantecyu Branch	1F., No. 88, Sec. 2, Sianmin Blvd., Banqiao Dist., New Taipei City 220, Taiwan (R.O.C.)	+886-2-29619666
Jiangcui Branch	1F., No. 8, Sec.3, Shuang 10th Rd., Banciao Dist., New Taipei City 220, Taiwan (R.O.C.)	+886-2-22578999
Sijhih Branch	1F., No. 210, Sec. 2, Datong Rd., Sijhih Dist., New Taipei City 221, Taiwan (R.O.C.)	+886-2-26489699
Sindian Branch	1F., No. 6, Sec. 2, Beisin Rd., Sindian Dist., New Taipei City 231, Taiwan (R.O.C.)	+886-2-29129988
North Sindian Branch	1F., No. 25, Mincyuan Rd., Sindian Dist., New Taipei City 231, Taiwan (R.O.C.)	+886-2-29135000
Baociang Branch	1F., No. 31, Baociang Rd., Sindian Dist., New Taipei City 231, Taiwan (R.O.C.)	+886-2-29123366
Yonghe Branch	1F., No. 215, Sec. 1, Jhongshan Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)	+886-2-89235008
Shuanghe Branch	1F., No. 588, Jhongjheng Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)	+886-2-29233333
Nashihjiao Branch	1F., No. 65, Jhongjheng Rd., Yonghe Dist., New Taipei City 234, Taiwan (R.O.C.)	+886-2-29498838
Banhe Mini Branch	1F., No. 726, Jhongjheng Rd., Jhonghe Dist., New Taipei City 235, Taiwan (R.O.C.)	+886-2-82261288
Jhonghe Branch	1F., No. 261, Sec. 2, Zhongshan Rd., Zhonghe Dist., New Taipei City 235, Taiwan (R.O.C.)	+886-2-22452277
Tucheng Branch	1F., No. 304, Sec. 2, Jhongyang Rd., Tucheng Dist., New Taipei City 236, Taiwan (R.O.C.)	+886-2-22630888
Jincheng Branch	1F., No. 16, Sec. 3, Jincheng Rd., Tucheng Dist., New Taipei City 236, Taiwan (R.O.C.)	+886-2-22601177
Sanxia Branch	No. 113, Daxue Rd., Sanxia Dist., New Taipei City 237, Taiwan (R.O.C.)	+886-2-26724088
Shulin Branch	1F., No. 122, Sec.1, Jhongshan Rd., Shulin Dist., New Taipei City 238, Taiwan (R.O.C.)	+886-2-26812345
Sanhe Branch	1F., No. 119, Sec. 4, Sanhe Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)	+886-2-22863286
Sanchong Branch	1F., No. 208, Jhengyi N. Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)	+886-2-29828121
Erchongpu Mini Branch	1F., No. 70-1, Sec. 1, Guangfu Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)	+886-2-29959876
Chongyang Branch	1F., No. 66, Sec. 1, Chongyang Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)	+886-2-89881199
Chongsin Branch	1F., No. 42-1, Sec. 2, Chongsin Rd., Sanchong Dist., New Taipei City 241, Taiwan (R.O.C.)	+886-2-89726189
Sinjuhuang Branch	1F., No. 320, Jhongjheng Rd., Sinjuhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	+886-2-29929696
Danfong Branch	1F., No. 879-15, Jhongjheng Rd., Sinjuhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	+886-2-29066888
Xinfu Branch	No. 333, Zhongyuan Rd., Xinzhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	+886-2-89916999
North Sinjuhuang Branch	1F., No. 57, Sec. 2, Jhonghua Rd., Sinjuhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	+886-2-22776789

Branch	Address	Telephone
Minan Branch	1F., No. 179, Min-an Rd., Sinhuang Dist., New Taipei City 242, Taiwan (R.O.C.)	+886-2-22068887
East Linkou Branch	1F., No. 677, Jhongshan Rd., Linkou Dist., New Taipei City 244, Taiwan (R.O.C.)	+886-2-26019397
Lujhou Branch	1F., No. 211, Jhongshan 1st Rd., Lujhou Dist., New Taipei City 247, Taiwan (R.O.C.)	+886-2-28482008
East Lujhou Branch	1F., No. 135, Minzu Rd., Lujhou Dist., New Taipei City 247, Taiwan (R.O.C.)	+886-2-22839300
North Lujhou Branch	1F., No. 355, Changrong Rd., Lujhou Dist., New Taipei City 247, Taiwan (R.O.C.)	+886-2-22881999
Danshuei Branch	1F., No. 123, Jhongshan Rd., Danshuei Dist., New Taipei City 251, Taiwan (R.O.C.)	+886-2-86318822
Yilan Branch	1F., No. 271, Sec.2, Jhongshan Rd., Yilan City, Yilan County 260, Taiwan (R.O.C.)	+886-3-9351122
Lohdong Branch	1F., No. 232, Singdong S. Rd., Luodong Township, Yilan County 265, Taiwan (R.O.C.)	+886-3-9574320
Hsinchu Branch	1F., No. 158, Jhongheng Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5222687
Guangfu Branch	No. 35, Ln. 19, Guanxin Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5790678
Jhuke Branch	1F., No. 2, Jinshan St., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5638080
East Hsinchu Branch	1F., No. 32, Jianjhong Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5749190
Baoshan Branch	No. 301, Shihpin Rd., East Dist., Hsinchu City 300, Taiwan (R.O.C.)	+886-3-5628877
Liou Jia Jhuang Branch	No. 36, Sec. 2, Wenxing Rd., Zhubei City, Hsinchu County 302, Taiwan (R.O.C.)	+886-3-5506789
Jhupei Branch	1F., No. 49, Guangming 6th Rd., Jhupei City, Hsinchu County 302, Taiwan (R.O.C.)	+886-3-6560222
Jhongyuan Branch	1F., No. 445, Sec. 2, Jhongbei Rd., Jhongli Dist., Taoyuan City 320, Taiwan (R.O.C.)	+886-3-4662211
Neili Mini Branch	1F., No. 262, Sec. 1, Zhonghua Rd., Jhongli Dist., Taoyuan City 320, Taiwan (R.O.C.)	+886-3-4611998
Jhongli Branch	1F., No. 500, Yanping Rd., Jhongli Dist., Taoyuan City 320, Taiwan (R.O.C.)	+886-3-4223131
Nan JungLi Branch	No. 68, Huannan Rd., Pingzhen Dist., Taoyuan City 324, Taiwan (R.O.C.)	+886-3-4028788
Yiwun Branch	No. 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, Jhongheng Rd., Lujhu Dist., Taoyuan City 338, Taiwan (R.O.C.)	+886-3-3212211
Toufen Branch	1F., No. 951, Jhonghua Rd., Toufen City, Miaoli County 351, Taiwan (R.O.C.)	+886-3-7695678
Taichung Branch	1F., No. 50, Minzu Rd., Central Dist., 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 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 Dist., Taichung City 406, Taiwan (R.O.C.)	+886-4-22469988
Shizheng Branch	No. 88, Sec. 1, Huizhong 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 Dist., Taichung City 408, Taiwan (R.O.C.)	+886-4-24712268
Gongyi Branch	1F., No. 53, Sec. 2, Gongyi Rd., Nantun Dist., 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
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, Jhongheng Rd., Fongyuan Dist., Taichung City 420, Taiwan (R.O.C.)	+886-4-25201010
Nantou Branch	1F., No. 220, Jhongshan St., Nantou City, Nantou County 540, Taiwan (R.O.C.)	+886-49-2207711

Branch	Address	Telephone
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 Dist., Tainan City 700, Taiwan (R.O.C.)	+886-6-2412318
Tainan Branch	1F., No. 159, Sec. 1, Fucian Rd., West Central Dist., 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 Dist., Tainan City 701, Taiwan (R.O.C.)	+886-6-3353535
East Tainan Branch	1F., No. 290, Sec. 2, Changrong Rd., East Dist., Tainan City 701, Taiwan (R.O.C.)	+886-6-2085522
South Tainan Branch	1F., No. 236, Sec. 2, Jiankang Rd., South Dist., 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 Dist., Tainan City 710, Taiwan (R.O.C.)	+886-6-2025787
Rende Mini Branch	1F., No. 478, Zhongshan Rd., Rende Dist., Tainan City 717, Taiwan (R.O.C.)	+886-6-2798099
Jiali Branch	1F., No. 410, Jhongshan Rd., Jiali Dist., Tainan City 722, Taiwan (R.O.C.)	+886-6-7221335
Sinying Branch	1F., No. 137, Jhongshan Rd., Sinying Dist., Tainan City 730, Taiwan (R.O.C.)	+886-6-6336789
Sinsing Branch	1F., No. 206, Minsheng 1st Rd., Sinsing Dist., Kaohsiung City 800, Taiwan (R.O.C.)	+886-7-2262325
Minzu Branch	1F., No. 97, Minzu 2nd Rd., Sinsing Dist., Kaohsiung City 800, Taiwan (R.O.C.)	+886-7-2386567
Kaohsiung Branch	1F., No. 168, Jhongjheng 4th Rd., Cianjin Dist., Kaohsiung City 801, Taiwan (R.O.C.)	+886-7-2318141
East Kaohsiung Branch	1F., No. 29, Cingnian 1st Rd., Lingya Dist., Kaohsiung City 802, Taiwan (R.O.C.)	+886-7-5351885
South Kaohsiung Branch	1F., No. 21, Yisin 2nd Rd., Cianjhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)	+886-7-3366768
Cianjhen Branch	1F., No. 480, Rueilong Rd., Cianjhen Dist., Kaohsiung City 806, Taiwan (R.O.C.)	+886-7-7261066
Jiouru Branch	1F., No. 551, Jiouru 1st Rd., Sanmin Dist., Kaohsiung City 807, Taiwan (R.O.C.)	+886-7-3805558
Sanmin Branch	1F., No. 366, Jiouru 2nd Rd., Sanmin Dist., Kaohsiung City 807, Taiwan (R.O.C.)	+886-7-3161155
North Kaohsiung Branch	1F., No. 52, Mingcheng 2nd Rd., Sanmin Dist., Kaohsiung City 807, Taiwan (R.O.C.)	+886-7-3461199
Youchang Branch	1F., No. 803-3, Houchang Rd., Nanzih Dist., Kaohsiung City 811, Taiwan (R.O.C.)	+886-7-3681699
Boai Branch	1F., No. 88, Bo-ai 2nd Rd., Zuoying Dist., Kaohsiung City 813, Taiwan (R.O.C.)	+886-7-5567909
Gangshan Mini Branch	1F., No. 388, Gangshan Rd., Gangshan Dist., Kaohsiung City 820, Taiwan (R.O.C.)	+886-7-6235500
Fongshan Branch	1F., No. 85-1, Jhongshan Rd., Fongshan Dist., Kaohsiung City 830, Taiwan (R.O.C.)	+886-7-7451199
Wujia Branch	1F., No. 699, Wujia 2nd Rd., Fongshan Dist., Kaohsiung City 830, Taiwan (R.O.C.)	+886-7-8215101
Cingnian Branch	1F., No. 315, Sec. 2, Cingnian Rd., Fongshan Dist., 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 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

B. Overseas services outlets

Branches

Unit	Address	Telephone	Fax
Hong Kong Branch	Suite 2801, 28F., Two International Finance Centre, No. 8 Finance St., Central, Hong Kong	+852-29161888	+852-28109742
Kowloon Branch	20F., Manhattan Place, No. 23 Wang Tai Rd., Kowloon Bay, Kowloon, Hong Kong	+852-29161688	+852-28050899
Shanghai Branch	27F., Shanghai World Financial Center, 100 Century Avenue, Pudong New Area, Shanghai 200120, PRC	+86-21-20805888	+86-21-68778788
Guangzhou Branch	6F., International Finance Place, No. 8 Huaxia Rd., Pearl River New Town, Guangzhou 510623, PRC	+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 Subdist. 361000, PRC	+86-592-5669686	+86-592-5668738
Shenzhen Branch	Unit 401A/402A2b, Kerry Plaza, No. 1, Zhong Xin Si Rd., Futian CBD, Shenzhen 518048, PRC	+86-755-25767999	+86-755-25767000
Shanghai Pilot Free Trade Zone Sub-Branch	Unit 01, 02, 12, 15F., No. 55 Jilong Rd., China (Shanghai) Pilot Free Trade Zone Shanghai 200131, PRC	+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, No. 25 Barakhamba Rd., New Delhi 110001, India	+91-11-43688888	+91-11-43688873
Sriperumbudur Branch	Plot No. 42 (old No. 105) Chennai Bangalore Highways NH4, Sriperumbudur, Kancheepuram Dist., Tamil Nadu 602105, India	+91-44-67147700	+91-44-67147799
Ho Chi Minh City Branch	Suite 2-9, 9F., MPlaza Saigon, No. 39 Le Duan St., Dist. 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, USA	+1-212-4578888	+1-212-4576666

Subsidiaries

Unit	Address	Telephone	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.	16-19F., Fort Legend Towers, 31st St. Corner 3rd Av., Bonifacio Global City, Taguig City, Philippines 1634	+63-2-9889287	+63-2-5767935
CTBC Bank Corp. (Canada)	1518 West Broadway, Vancouver, BC, 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 offices

Unit	Address	Telephone	Fax
Bangkok Rep. Office	Suite 803, 8F., GPF Witthayu, Tower A, 93/1 Wireless Rd., Lumpini, Pathumwan, Bangkok 10330, Thailand	+66-2-2543139	+66-2-2566480
Hanoi Rep. Office	East-3002, 30F., LOTTE Center Hanoi, No. 54 Lieu Giai St., Cong Vi Ward, Ba Dinh Dist., Hanoi, Vietnam	+84-24-38249088	+84-24-38249099
Los Angeles Rep. Office	17851 Colima Rd., Suite A2, City of Industry, CA91748, USA	+1-626-8397660	+1-626-9120868
Beijing Rep. Office	B-111, The Grand Pacific Building, 8a, Guanghua Rd., Chao Yang Dist., Beijing, 100026, PRC	+86-10-65813700	+86-10-65815701
Sydney Rep. Office	Suite 2702, Level 27, 259 George St., Sydney, NSW 2000, Australia	+61-2-92513655	+61-2-92513644
Yangon Rep. Office	Unit 506, No. 53, Strand Rd., Pabedan Township, Yangon, Myanmar	+95-1-2307348	+95-1-2307347
Kuala Lumpur Rep. Office	Lot 11-09, Level 11, Menara Hap Seng 2, Letter Box 21, Plaza Hap Seng, No. 1, Jalan P. Ramlee 50250 Kuala Lumpur, Malaysia	+60-3-20223299	+60-3-20223277

CTBC BANK CO., LTD. AND SUBSIDIARIES

Consolidated Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

**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 independent 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 independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

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Representation Letter

The entities that are required to be included in the consolidated financial statements of CTBC Bank Co., Ltd. for the year ended December 31, 2018 under the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises are the same as those included in the consolidated financial statements prepared in conformity with International Financial Reporting Standard No. 10 “Consolidated Financial Statements”, endorsed by the Financial Supervisory Commission of the Republic of China. In addition, the information required to be disclosed in the consolidated financial statements of the affiliates is fully included in the consolidated financial statements. Consequently, CTBC Bank Co., Ltd. and subsidiaries do not prepare a separate set of consolidated financial statements of the affiliated enterprises.

Company name: CTBC Bank Co., Ltd.
Chairman: Chao-Chin Tung
Date: March 21, 2019



安侯建業聯合會計師事務所

KPMG

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Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of CTBC Bank Co., Ltd. ("the Bank") and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2018 and 2017, 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 at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), interpretations and pronouncements as endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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 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 for our opinion.

Emphasis of Matter

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2018. 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 for the accounting assumptions and estimation uncertainty, and Note 6 (ao) for the other details.

Description of key audit matter:

Parts of the financial instruments owned by the Bank and its subsidiaries as of December 31, 2018 were valued via evaluation model due to the lack of transaction prices at active market, 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.

How the matter was addressed in our audit:

Our principal audit procedures included: Testing the management's control procedures over the classification, measurement and disclosure of fair value of financial instruments, including evaluating how the management determines the classification of financial instruments, chooses the appropriate evaluation method and decides 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 for the accounting assumptions and estimation uncertainty, and Note 6 (i), (j), (k) and (ao) for the other details.

Description of key audit matter:

The management assessed the expected credit loss (ECL) of loans and receivables by identifying whether the credit risk of credit assets has significantly increased since initial recognition, then dividing ECL into 12-month ECL and lifetime ECL, 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, current market conditions and forward-looking estimation 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.

How the matter was addressed in our audit:

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, loss given default, exposure at default 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 with emphasis of matter and other matter on it for user reference.



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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), interpretations and pronouncements as endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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.

Auditors' 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 auditors' 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 auditors' 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 audit and developing the Bank and its subsidiaries' 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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, 2019

Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and 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 independent 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 independent auditors' report and consolidated financial statements, the Chinese version shall prevail.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	ASSETS	December 31, 2018		December 31, 2017		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%	Amount	%	Amount	%
11000	Cash and cash equivalents (note 4 and 6(a))	\$ 87,559,487	2	89,234,642	3	\$ 74,498,692	2	74,874,783	2
11500	Due from Central Bank and call loans to banks (note 6(b), 7 and 8)	252,880,081	6	281,195,765	8	210,000			
12000	Financial assets measured at fair value through profit or loss (note 4, 6(c) and (u), 7 and 8)	163,460,604	4	140,189,002	4	3,610,183	-	4,323,876	-
12100	Financial assets measured at fair value through other comprehensive income (note 4, 6(d) and (u), and 8)	253,666,127	7	-	-	93,273,214	2	67,430,644	2
12200	Investment in debt instruments at amortized cost (note 4, 6(e) and (u), and 8)	595,630,666	15	-	-	184,195	-	16,865	-
14000	Available-for-sale financial assets-net (note 4, 6(f) and (u), and 8)	-	-	214,952,284	6				
12300	Financial instruments-hedging/ Derivative financial assets-hedging-net (note 4 and 6(g))	34,212	-	137,010	-				
12500	Securities purchased under resell agreements (note 4 and 6(h))	1,481,876	-	-	-				
13000	Receivables-net (note 4, 6(i), (k) and (ao), 7 and 8)	163,682,849	4	121,046,639	3	60,957,626	1	62,742,896	2
13200	Current income tax assets (note 4)	912,682	-	510,424	-	75,980,415	2	69,278,998	2
13500	Loans-net (note 4, 6(j), (k) and (ao), and 7)	2,313,708,156	59	2,142,676,154	57	2,296,295	-	2,736,000	-
14500	Held-to-maturity financial assets-net (note 4, 6(l) and (u), and 8)	-	-	643,909,213	17	3,156,766,975	80	2,981,845,216	79
15000	Investment under equity method-net (note 4 and 6(m))	19,536,750	1	17,873,392	-	58,999,992	1	69,290,443	2
15500	Other financial assets-net (note 4, 6(k) and (n), and 8)	2,316,623	-	17,861,460	-	119,911,411	3	132,761,156	3
18500	Premises and equipment-net(note 4 and 6(p))	47,996,997	1	46,612,395	1	5,514,991	-	5,621,352	-
18700	Investment property-net (note 4 and 6(o))	1,841,957	-	2,207,123	-	1,099,178	-	858,112	-
19000	Intangible assets-net (note 4 and 6(q))	15,813,711	-	14,867,190	-	10,669,761	-	10,008,060	-
19300	Deferred income tax assets (note 4 and 6(ac))	6,968,418	-	6,907,914	-	3,663,762,928	91	3,481,788,401	92
19500	Other assets-net (note 4 and 6(r))	32,086,622	1	21,317,913	1				
	TOTAL ASSETS	\$ 3,959,577,818	100	3,761,498,520	100				
						LIABILITIES AND EQUITY			
						LIABILITIES:			
						Deposits from Central Bank and other banks (note 6(s) and 7)			
						Due to Central Bank and other banks (note 6(t))			
						Financial liabilities measured at fair value through profit or loss (note 4, 6(c) and 7)			
						Financial instruments-hedging/ Derivative financial liabilities-hedging-net (note 4 and 6(g))			
						Securities sold under repurchase agreements (note 4 and 6(u) and 7)			
						Payables (note 6(v) and 7)			
						Current income tax liabilities (note 4)			
						Deposits and remittances (note 6(w) and 7)			
						Financial debentures (note 6(c), (g) and (x))			
						Other financial liabilities (note 6(y))			
						Provisions (note 4, 6(k), (z) and (ab))			
						Deferred tax liabilities (note 4 and 6(ac))			
						Other liabilities (note 6(aa))			
						Total Liabilities			
						Stockholders' Equity - Parent Company:			
						Capital stock :			
						Common stock (note 6(ad))			
						Capital surplus:(note 6(ad))			
						Capital premium			
						Others			
						Retained earnings:			
						Legal reserve			
						Special reserve			
						Undistributed earnings (note 6(ad))			
						Other equity interest (note 6(ad))			
						Non-controlling interests			
						Total Equity			
						TOTAL LIABILITIES AND EQUITY			
						\$ 3,959,577,818			
						100			
						3,761,498,520			
						100			

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, Except for Earnings Per Share)

		2018		2017		Change
		Amount	%	Amount	%	%
41000	Interest income(note 6(ah) and 7)	\$ 78,042,305	82	67,347,690	72	16
51000	Less: Interest expenses(note 6(ah) and 7)	(25,248,942)	(26)	(19,174,308)	(20)	32
	Net interest income(note 6(ah))	<u>52,793,363</u>	<u>56</u>	<u>48,173,382</u>	<u>52</u>	10
	Net non-interest income					
49100	Service fee and commission income(note 6(ai) and 7)	30,913,601	32	31,890,031	34	(3)
49200	Gains on financial assets or liabilities measured at fair value through profit or loss (note 6(aj))	10,449,589	11	7,651,388	8	37
49300	Realized gain on available-for-sale financial assets	-	-	745,768	1	(100)
49310	Realized loss on financial assets measured at other comprehensive income	(100,051)	-	-	-	100
49400	Realized gains on held-to-maturity financial assets	-	-	3,858	-	(100)
49450	Gains on derecognition of financial assets measured at amortized cost	30,064	-	-	-	100
49600	Foreign exchange gains	707,426	1	2,552,755	3	(72)
49700	Impairment losses on assets	(11,146)	-	(42,574)	-	74
49750	Proportionate share of gains from associates or joint ventures under equity method (note 6(m))	1,300,212	1	1,404,768	1	(7)
49800	Other net non-interest income	1,992,633	2	1,429,107	1	39
49815	Gains on investment property	1,087	-	2,574,711	3	(100)
49899	Public-welfare lottery payment	(2,700,000)	(3)	(2,700,000)	(3)	-
	Net revenue	<u>95,376,778</u>	<u>100</u>	<u>93,683,194</u>	<u>100</u>	2
58200	Provision for bad debt expenses, commitment and guarantee liability provision (note 6(k))	<u>(4,740,162)</u>	<u>(5)</u>	<u>(2,480,381)</u>	<u>(3)</u>	91
	Operating expenses:					
58500	Employee benefits expenses(note 6(ak) and (am))	(29,652,544)	(31)	(29,971,528)	(32)	(1)
59000	Depreciation and amortization expenses(note 6(al))	(3,494,837)	(4)	(3,271,508)	(3)	7
59500	Other general and administrative expenses(note 6(an))	(21,757,716)	(23)	(21,311,386)	(23)	2
	Total operating expenses	<u>(54,905,097)</u>	<u>(58)</u>	<u>(54,554,422)</u>	<u>(58)</u>	1
61001	Net income before tax from continuing operations	<u>35,731,519</u>	<u>37</u>	<u>36,648,391</u>	<u>39</u>	(3)
61003	Income tax expenses(note 6(ac))	<u>(6,048,906)</u>	<u>(6)</u>	<u>(6,625,232)</u>	<u>(7)</u>	9
	Net income	<u>29,682,613</u>	<u>31</u>	<u>30,023,159</u>	<u>32</u>	(1)
65000	Other comprehensive income:					
65200	Items that will not be reclassified subsequently to profit or loss					
65201	Remeasurement gains related to defined benefit plans	315,568	-	152,481	-	107
65205	Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	1,112,346	1	(1,105,808)	(1)	201
65204	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(133,778)	-	-	-	-
65206	Proportionate share of other comprehensive income (losses) from associates or joint ventures under the equity method	2,850	-	(5,209)	-	155
65220	Income tax related to items that will not be reclassified to profit or loss	(36,354)	-	(31,109)	-	(17)
	Subtotal	<u>1,260,632</u>	<u>1</u>	<u>(989,645)</u>	<u>(1)</u>	227
65300	Items that are or may be reclassified subsequently to profit or loss					
65301	Exchange differences of overseas subsidiaries' financial reports translation	1,991,563	2	(4,612,504)	(5)	143
65302	Unrealized valuation gains on available-for-sale financial assets	-	-	1,839,335	2	(100)
65308	Unrealized gains from investment in debt instruments measured at fair value through other comprehensive income	110,971	-	-	-	-
65306	Proportionate share of other comprehensive (losses) income from associates or joint ventures under the equity method	(244,007)	-	168,640	-	(245)
65320	Income tax related to items that are or may be reclassified to profit or loss	(50,221)	-	184,287	-	(127)
	Subtotal	<u>1,808,306</u>	<u>2</u>	<u>(2,420,242)</u>	<u>(3)</u>	175
65000	Other comprehensive income (losses) (net amount after tax)	<u>3,068,938</u>	<u>3</u>	<u>(3,409,887)</u>	<u>(4)</u>	190
66000	Total comprehensive income	<u>\$ 32,751,551</u>	<u>34</u>	<u>26,613,272</u>	<u>28</u>	23
	Net Income attributable to:					
67101	Parent company	\$ 29,680,076	31	30,021,451	32	(1)
67111	Non-controlling interest	2,537	-	1,708	-	49
		<u>\$ 29,682,613</u>	<u>31</u>	<u>30,023,159</u>	<u>32</u>	
	Comprehensive income attributable to:					
67301	Parent company	\$ 32,752,086	34	26,618,585	28	23
67311	Non-controlling interest	(535)	-	(5,313)	-	90
		<u>\$ 32,751,551</u>	<u>34</u>	<u>26,613,272</u>	<u>28</u>	
	Earnings per share (unit: NT dollars) (note 6(ag))	<u>\$ 2.11</u>		<u>2.13</u>		

See accompanying notes to consolidated financial statements.

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

CTBC BANK CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	Stockholders' Equity - Parent Company											
	Capital stock	Retained earnings			Other equity interest				Change in designated as financial liabilities			
		Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences of overseas subsidiaries' financial reports translation	Unrealized losses on financial assets measured at fair value through other comprehensive income	Unrealized (losses) gains on available-for-sale financial assets	Stockholders' equity - parent company	Non-controlling interests	Total equity
Balance at January 1, 2017		\$ 131,125,735	29,788,688	64,920,980	11,442,001	23,114,959	(4,326,710)	-	(2,734,459)	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)	(7,021)	(3,409,887)
Total comprehensive income (losses)	-	-	-	-	-	30,137,868	(4,174,051)	-	1,760,576	(1,105,808)	(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)	-	-	-	-	-	-
Others	-	-	-	-	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)	279,632,639	77,480	279,710,119
Effects of retrospective application of new standards	-	-	-	-	-	513,783	(804)	(670,662)	973,883	816,200	(928)	815,272
Balance at January 1, 2018 after adjustments		140,685,719	29,788,688	71,848,629	18,069,266	30,651,714	(8,501,565)	(670,662)	-	280,448,839	76,552	280,525,391
Net income	-	-	-	-	-	29,680,076	-	-	-	29,680,076	2,537	29,682,613
Other comprehensive income (losses)	-	-	-	-	-	279,407	1,879,320	(199,063)	-	3,072,010	(3,072)	3,068,938
Total comprehensive income (losses)	-	-	-	-	-	29,959,483	1,879,320	(199,063)	-	32,752,086	(535)	32,751,551
Appropriation and distribution of retained earnings:												
Legal reserve appropriated	-	-	-	9,006,435	-	(9,006,435)	-	-	-	-	-	-
Special reserve appropriated	-	-	-	-	3,669,391	(3,669,391)	-	-	-	-	-	-
Cash dividends of common share	-	-	-	-	-	(17,462,052)	-	-	-	(17,462,052)	-	(17,462,052)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	(47,355)	-	47,355	-	-	-	-
Balance at December 31, 2018		\$ 140,685,719	29,788,688	80,855,064	21,738,657	30,425,964	(6,622,245)	(822,370)	-	295,738,873	76,017	295,814,890

See accompanying notes to consolidated financial statements.

CTBC BANK CO., LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash Flows from Operating Activities:		
Net Income Before Tax	\$ 35,731,519	36,648,391
Adjustments:		
Income and expenses items:		
Depreciation expense	2,282,530	2,198,218
Amortization expense	1,224,125	1,096,119
Provision for expected credit loss / bad debt expenses, commitment and guarantee liability provision	4,740,162	2,480,381
Net gains on financial assets or liabilities measured at fair value through profit or loss	(2,161,258)	(4,162,491)
Interest expense	25,248,942	19,174,308
Interest income	(78,042,305)	(67,347,690)
Dividend income	(474,688)	(545,592)
Net change in other provisions	63,570	(671,285)
Proportionate share of gains from associates and joint ventures under the equity method	(1,300,212)	(1,404,768)
Losses on disposal and retirement of premises and equipment	35,277	38,284
Gain on disposal of investment properties	(4,072)	(2,578,315)
Loss on disposal and retirement of intangible assets	6,267	1,439
Gain on disposal of investments accounted for using equity method	-	(47,535)
Impairment losses on financial assets	7,716	8,814
Impairment losses on non-financial assets	3,430	33,760
Losses on disposal of foreclosed properties	2,979	2,461
Other adjustments	1,513,849	(1,966,363)
Subtotal of income and expense items	(46,853,688)	(53,690,255)
Changes in Operating Assets and Liabilities:		
Net Changes in Operating Assets:		
Decrease in due from Central Bank and call loans to banks	10,889,278	3,027,731
(Increase) decrease in financial assets measured at fair value through profit or loss	(15,922,842)	40,199,562
Increase in financial assets measured at fair value through other comprehensive income	(42,915,349)	-
Decrease in investments in debt instruments at amortized cost	60,183,471	-
Decrease in hedging financial assets	102,798	279,332
Increase in receivables	(41,110,114)	(15,019,892)
Increase in loans	(175,505,281)	(94,311,491)
Decrease in available-for-sale financial assets	-	381,315,297
Increase in held-to-maturity financial assets	-	(517,863,991)
Decrease in other financial assets	487,151	536,072
Net Changes in Operating Assets	(203,790,888)	(201,837,380)
Net Changes in Operating Liabilities:		
(Decrease) increase in deposits from Central Bank and other banks	(376,091)	11,376,100
Increase (decrease) in financial liabilities measured at fair value through profit or loss	22,002,742	(30,638,607)
Increase (decrease) in hedging financial liabilities	167,330	(286,734)
Increase in payables	3,662,606	2,214,263
Increase in deposits and remittances	174,921,759	219,167,464
Decrease in other financial liabilities	(13,680,336)	(18,780,616)
Decrease in employee benefits reserve	(115,952)	(201,663)
Net Changes in Operating Liabilities	186,582,058	182,850,207
Net Changes in Operating Assets and Liabilities	(17,208,830)	(18,987,173)
Sum of Adjustments	(64,062,518)	(72,677,428)
Cash Used in Operating Activities	(28,330,999)	(36,029,037)
Interest received	76,347,867	65,700,024
Dividends received	1,434,308	1,813,817
Interest paid	(22,280,198)	(17,925,199)
Income taxes paid	(6,397,795)	(4,535,290)
Net Cash Flows Provided by Operating Activities	20,773,183	9,024,315

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash Flows from Investing Activities:		
Acquisition of financial assets at cost	\$ -	(198,962)
Proceeds from disposal of financial assets at cost	-	133,697
Proceeds from capital reduction of financial assets at cost	-	50
Purchase of financial assets under equity method	(1,072,394)	(15,178,437)
Purchase of premises and equipment	(2,704,624)	(2,638,437)
Disposal of premises and equipment	7,046	15,410
Purchase of intangible assets	(2,417,029)	(1,090,741)
Disposal of intangible assets	115,274	-
Disposal of foreclosed properties	3,834	37,606
Disposal of investment properties	10,239	4,411,953
(Increase) decrease in other assets	(11,679,321)	5,033,119
Net Cash Flows Used in Investing Activities	(17,736,975)	(9,474,742)
Cash Flows from Financing Activities:		
Decrease in due to Central Bank and other banks	(713,693)	(1,716,429)
Issuance of financial debentures	-	1,000,000
Repayments of financial debentures	(10,331,360)	(2,981,460)
(Decrease) increase in securities sold under repurchase agreements	(1,785,270)	22,809,437
Increase in financial liabilities designated at fair value through profit or loss	6,914,925	5,372,640
Increase in payables	85,418	4,555
Increase in other liabilities	661,701	3,851,248
Cash dividends paid	(17,462,052)	-
Net Cash Flows (Used in) Provided by Financing Activities	(22,630,331)	28,339,991
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1,983,613	(4,042,095)
(Decrease) increase in Cash and Cash Equivalents	(17,610,510)	23,847,469
Cash and Cash Equivalents at the Beginning of Period	314,112,296	290,270,609
Cash and Cash Equivalents at the End of Period	\$ 296,501,786	314,118,078
Composition of Cash and Cash Equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 87,559,487	89,234,642
Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents	207,460,423	224,883,436
Securities purchased under resell agreements which meet IAS 7 definition of cash and cash equivalents	1,481,876	-
Cash and Cash Equivalents at the End of Period	\$ 296,501,786	314,118,078

See accompanying notes to consolidated financial statements.

(English Translation of Consolidated Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(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;

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Bank's headquarters coordinate corporate wide operations and establishes domestic and overseas banking units to expand business. As of December 31, 2018, the Bank had 152 domestic branches, 12 foreign branches and 7 overseas representative offices, whereas its subsidiaries had 93 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 statements were approved by the board of directors on March 21, 2019.

(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 subsidiaries are required to conform to the following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018. In addition, based on the announcement issued by the FSC on December 12, 2017, the Bank and subsidiaries can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation". The related new standards, amendments and interpretations are as follows:

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

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Except for the following items, the Bank and subsidiaries believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes 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.

As a result of the adoption of IFRS 9, the Bank and subsidiaries adopted the amendments to IFRS 7 “Financial Instruments: Disclosures” that are applied to disclosures information of the year of 2018, but generally it has not been applied to the comparative information.

1) Classification of financial assets and financial liabilities

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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous IAS 39 categories of available for sale, financial assets carried at cost, debt instruments without active markets and held to maturity. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. For an explanation of how the Bank and subsidiaries classify and measure financial assets and accounts for related gains and losses under IFRS 9, please refer to Note 4(f).

The adoption of IFRS 9 did not have any significant impact on the Bank and subsidiaries’ accounting policies on financial liabilities.

2) Impairment of 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 judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model applies to financial assets measured at amortized cost, debt investments at FVOCI, loan commitment and financial guarantee contract. Under IFRS 9, credit losses are recognized earlier than they are under IAS 39, please refer to Note 4(f).

3) Hedge accounting

When initially applying IFRS 9, the Bank and 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 subsidiaries has chosen to continue to apply the hedge accounting requirements of IAS 39.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

4) Transition

The adoption of IFRS 9 have been applied retrospectively, except as described below,

- Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognized in retained earnings and other equity interests as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The Bank and subsidiaries 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 been made on the basis of the facts and circumstances that existed 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.

5) Classification of financial assets on the date of initial application of IFRS 9

The following table shows the original measurement categories under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Bank and subsidiaries' financial assets as of January 1, 2018. (The measurement categories and carrying amount of the financial liabilities have not changed.)

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Financial Assets				
Cash and cash equivalents	Amortized cost	\$ 89,234,642	Amortized cost	89,228,860
Due from Central Bank and call loans to banks	Amortized cost	281,195,765	Amortized cost	281,192,372
Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss	140,189,002	Measured at fair value through profit or loss	140,189,002
Available-for-sale financial assets	Measured at fair value through other comprehensive income	214,952,284	Measured at fair value through profit or loss (Note1)	7,523,037
			Measured at fair value through other comprehensive income (Note2)	207,429,247

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	IAS 39		IFRS 9	
	Measurement categories	Carrying Amount	Measurement categories	Carrying Amount
Derivative financial assets	Measured at fair value through	\$ 137,010	Measured at fair value through	137,010
—hedging—net	profit or loss		profit or loss	
Receivables—net	Amortized cost	121,046,639	Amortized cost	121,072,857
Loans—net	Amortized cost	2,142,676,154	Amortized cost	2,142,590,713
Held-to-maturity financial assets—net	Amortized cost	643,909,213	Measured at fair value through other comprehensive income (Note3)	389,046
			Amortized cost (Note4)	643,525,116
Debt investments without active market—net	Amortized cost	12,281,846	Amortized cost (Note4)	12,290,697
Equity investment under cost method—net	Amortized cost	2,691,927	Measured at fair value through profit or loss (Note5)	732,583
			Measured at fair value through other comprehensive income (Note6)	2,961,333
Other financial assets—others	Amortized cost	2,887,687	Amortized cost	2,896,529
Other assets—Refundable deposits	Amortized cost	10,908,349	Amortized cost	10,907,803

Note 1 : The investment in financial instruments categorized as available-for-sale under IAS 39, and have been classified as FVOCI under IFRS 9. The increase of \$150,690 in other equity interests and the decrease of \$150,690 in retained earnings were recognized on the transition day on January 1, 2018.

Note 2 : The investment in debt instruments are categorized as available-for-sale under IAS 39. The Bank and subsidiaries assess that these securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling securities, and for which the contractual cash flows are fully be paid for the principle and interests incurred. Consequently, these investments at the date of initial application are classified as financial assets measured at fair value through other comprehensive income. An allowance for impairment loss of \$61,863 was recognized to decrease retained earnings and increase other equity interest upon transition to IFRS 9 on January 1, 2018.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- Note 3: The investment in debt instruments that were previously classified as held-to-maturity are now classified as financial assets measured at fair value through other comprehensive income under IFRS 9. The Bank and subsidiaries assess that these securities are held within a business model whose objective is achieved by both collecting the contractual cash flows and by selling securities, and for which the contractual cash flows are fully be paid for the principle and interests incurred. An increase of \$17,168 was recognized under other equity interest on January 1, 2018 upon transition to IFRS 9.
- Note 4: The investment in debt instruments that were previously classified as held-to-maturity and debt investment without an active market are now classified as investment in debt instruments at amortized cost. The Bank and subsidiaries assess that these securities are held within a business model whose objective is achieved by collecting the contractual cash flows, and for which the contractual cash flows are fully be paid for the principle and interests incurred. An allowance for impairment of \$3,368 was recognized to decrease retained earnings on January 1, 2018 upon transition to IFRS 9.
- Note 5: The equity investments under cost method were classified as FVTPL and therefore recognized an increase of \$152,074 in retained earnings upon the transition to IFRS 9 on January 1, 2018.
- Note 6: The equity investments under cost method were designated as FVOCI and therefore recognized increase of \$167,638 and \$682,277 in other equity interests and retained earnings, respectively, upon the transition to IFRS 9 on January 1, 2018.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Financial assets under IAS 39 have transferred to IFRS 9, the following table reconciles the carrying amounts of financial assets on January 1, 2018.

	2017.12.31 IAS39 Carrying amount	Reclassifications	Remeasurements	2018.1.1 IFRS9 Carrying amount	2018.1.1 Retained earnings impacts	2018.1.1 Other equity interest impacts
Measured at fair value through profit or loss						
From measured at fair value through profit or loss (IAS39)	\$ 140,326,012	-	-	-	-	-
Additions :						
From measured at fair value through other comprehensive income (available-for-sale under IAS39)	-	7,523,037	-	-	(150,690)	150,690
From amortized cost (measured at cost under IAS39)	-	580,509	152,074	152,074	-	-
Total changes of fair value through profit or loss assets	140,326,012	8,103,546	152,074	148,581,632	1,384	150,690
Measured at fair value through other comprehensive income						
Additions – debt instruments :						
From measured at fair value through other comprehensive income (available-for-sale under IAS39)	210,494,231	-	-	-	(61,863)	61,863
From amortized cost (held-to-maturity under IAS39)	-	371,878	17,168	17,168	-	17,168
Additions – equity instruments :						
From measured at fair value through other comprehensive income (available-for-sale under IAS39)	4,458,053	-	-	-	-	-
From amortized cost (measured at cost under IAS39)	-	2,111,418	849,915	849,915	682,277	167,638
Deduction – debt and equity instruments :						
To measured at fair value through profit or loss (IFRS9)	-	(7,523,037)	-	-	-	-
Total changes of fair value through other comprehensive income assets	214,952,284	(5,039,741)	867,083	210,779,626	620,414	246,669
Amortized cost						
Additions :						
From amortized cost (held-to-maturity financial assets, debt investments without active markets and equity instruments measured at cost are included)	658,882,986	-	(3,368)	-	(3,368)	-
Deductions :						
To measured at fair value through other comprehensive income (IFRS9)	-	(2,483,296)	-	-	-	-
To measured at fair value through profit or loss (IFRS9)	-	(580,509)	-	-	-	-
Total changes of amortized cost assets	658,882,986	(3,063,805)	(3,368)	655,815,813	(3,368)	-
The balance of financial assets, the total balance of reclassification and remeasurement on January 1, 2018	\$ 1,014,161,282	-	1,015,789	1,015,177,071	618,430	397,359

Note : The number of retained earnings impacts are pre-tax amounts.

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CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

The allowance of impairment losses identified by incurred loss model under IAS 39 were adjusted to the expected losses model under IFRS 9, the following table reconciles the balance of allowance of impairment losses upon the transition to IFRS 9 on 1 January, 2018.

	The balance of allowance of impairment loss under IAS39 and the amount of provision under IAS37	Reclassifications	Remeasurements	The balance of allowance of impairment loss under IFRS9
Loans and receivables (IAS39) / Financial assets measured at amortized cost (IFRS9)				
Cash and cash equivalents	\$ 5,172	-	5,782	10,954
Due from Central Bank and call loans to banks	18,726	-	3,393	22,119
Receivables	2,499,516	-	71,920	2,571,436
Loans	12,974,531	-	693,293	13,667,824
Additional provision of impairment loss in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans"	14,510,367	-	(705,990)	13,804,377
Subtotal	<u>30,008,312</u>	<u>-</u>	<u>68,398</u>	<u>30,076,710</u>
Other financial assets	122,903	-	(8,842)	114,061
Other assets	3,519	-	546	4,065
Total	<u>30,134,734</u>	<u>-</u>	<u>60,102</u>	<u>30,194,836</u>
Available-for-sale financial assets (IAS39) / Financial assets measured at fair value through profit or loss (IFRS9)				
Available-for-sale financial assets	94,412	(94,412)	-	-
Available-for-sale financial assets (IAS39) / Financial assets measured at fair value through other comprehensive income (IFRS9)				
Available-for-sale financial assets	-	-	61,863	61,863
Held-to-maturity (IAS39) / Financial assets measured at amortized cost (IFRS9)				
Held-to-maturity financial assets	11,870	-	12,219	24,089
Debt investments without active markets (Other financial assets) (IAS39) / Financial assets measured at amortized cost (IFRS9)				
Debt investments without active markets	24,736	-	(8,851)	15,885
Financing commitment and guarantee reserve				
Loans (Financing commitment)	54,852	-	49,202	104,054
Credit cards (Financing commitment)	-	-	161,776	161,776
Guarantee receivables	168,852	-	99,613	268,465
Letter of credit receivables	-	-	8,032	8,032
Additional provision of impairment loss in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	646,616	-	(122,045)	524,571
Subtotal	<u>870,320</u>	<u>-</u>	<u>196,578</u>	<u>1,066,898</u>
Total	<u>\$ 31,136,072</u>	<u>(94,412)</u>	<u>321,911</u>	<u>31,363,571</u>

Note: The number of impacts are pre-tax amounts.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(b) The impact of IFRS 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 or after January 1, 2019 in accordance with Ruling No. 1070324857 issued by the FSC on July 17, 2018:

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 16 “Leases”	January 1, 2019
IFRIC 23 “Uncertainty over Income Tax Treatments”	January 1, 2019
Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”	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

Except for the following items, there is no significant change in the contents of the above IFRSs. The primary changes and related impact are as follows:

IFRS 16 “Leases”

IFRS 16 replaces the existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 introduces a single and an on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. In addition, the nature of expenses related to those leases will now be changed since IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. There are recognition exemptions for short-term leases and leases of low-value items. The lessor accounting remains similar to the current standard – i.e. the lessors will continue to classify leases as finance or operating leases.

So far, the Bank and subsidiaries estimated the application of the new standard on January 1, 2019 resulting in right-of-use asset and lease liability in increases of \$16,331 million and \$13,903 million, respectively. The amount of the difference between right-of-use asset and lease liability is due to reclassifying prepaid rent to right-of-use asset with IFRS16.

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

List 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 3 “Definition of a Business”	January 1, 2020
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 17 “Insurance Contracts”	January 1, 2021

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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New, Revised or Amended Standards and Interpretations	Effective date per IASB
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020

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

Issuance / Release Dates	Standards or Interpretations	Content of amendment
September 11, 2014	Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture”	The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.
October 22, 2018	Amendments to IFRS 3 “Definition of a Business”	<p>The IASB has issued narrow-scope amendments to IFRS 3 to improve the definition of a business. The amendments will help companies determine whether an acquisition made is of a business or a group of assets.</p> <p>The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the IASB has provided supplementary guidance.</p>
October 31, 2018	Amendments to IAS 1 and IAS 8 “Definition of Material”	The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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The impact of applying new standards on the financial position and financial performance of the Bank and subsidiaries is under evaluation. Once the evaluation is completed, the Bank and subsidiaries will disclose the effect on the financial reports.

(4) Summary of Significant Accounting Policies:

(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 balance sheet:

- (i) Financial instruments measured at fair value through profit or loss (including derivative financial instruments);
- (ii) Financial instruments measured at fair value through other comprehensive income (applicable from January 1, 2018)
- (iii) Available-for-sale financial assets measured at fair value (applicable before January 1, 2018);
- (iv) Hedging derivative financial instruments measured at fair value;
- (v) Cash-settled share-based payment agreements liability measured at fair value; and
- (vi) 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 subsidiaries intra-group transactions are written-off.

- (ii) The control of a special purpose entity ("SPE") by the Bank and 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;

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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, 2018	December 31, 2017
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 2)	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.	Financing and assurance business	100.00 %	100.00 %
"	TSB Servicer, Ltd.	Debt management business	100.00 %	100.00 %
"	Pecuniary Trust Contract (Note 1)	Mortgage management / Collection NPL	- %	- %
"	Credit Linked Notes (Note 1)	A security with an embedded credit default swap	- %	- %
"	Asset-back Securities (Note 1)	Consumer loan management	- %	- %

Note 1 : The reason the listed entities are included in the consolidated financial reports of the Bank and subsidiaries is because the Bank and 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, 2018, the Bank and 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 2 : CTBC Capital Corp. remitted US\$173,000 thousand in capital surplus and US\$57,000 thousand in retained earnings on December 19, 2017.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(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 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(f) Financial instruments

Financial assets held by the Bank and subsidiaries are recorded on the trading date, the fair value is recorded at the time of initial recognition. Except for financial instruments classified as fair value through profit or loss (FVTPL), other financial instruments are initially recognized at acquiring or issuing cost plus transaction costs. However, if the handling fee arising from the sale and purchase does not reach the principle of materiality, it will be charged to current expenses. 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.

(i) Financial assets (applicable from January 1, 2018)

Financial assets are classified into the following categories: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) and measured at amortized cost.

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

Financial assets measured at fair value through profit or loss, if one of the following conditions is met:

- a) Financial assets held for trading.
 - i) Its main purpose is to sell or repurchase in the near future.
 - ii) When it was originally recognized, it was part of the identifiable financial commodity investment of a group of merged management with evidence showing the mode of operation in which this combination is actually a short-term profit in the near term.
- b) Financial assets that are not measured at amortized cost or fair value through other comprehensive income.
- c) In addition to being designated as a hedged item by hedge accounting, financial assets designated as at fair value through profit or loss at initial recognition.
- d) The entire hybrid contract which has a host that is an asset within the scope of IFRS 9.
- e) Derivative financial instrument.

At each balance sheet date, the fair value is remeasured, and the resulting gain or loss from such remeasurement is recognized in current profit or loss.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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- 2) Financial assets measured at fair value through other comprehensive income
- a) Financial assets measured at fair value through other comprehensive income, if both of the following conditions are met and financial assets were not designated as financial assets measured at fair value through profit or loss :
- i) The financial assets is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
1. Principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.
2. However, in some cases, the time value of money element may be modified (i.e. imperfect). In such cases, the Bank and subsidiaries must assess the modification to determine whether the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

The fair value of debt instruments measured at fair value through other comprehensive income shall be remeasured at each balance sheet date. The resulting gain or loss from such remeasurement is recognized directly in other comprehensive income. Interest on a debt instrument shall be recorded under the accrual basis, with the relevant premium/discount amortized by using the effective-interest-rate method. Credit losses on the financial instrument shall be recognized as well. If, in a subsequent period, 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 balance of impaired adjustment amount in other comprehensive income after the reversal shall not be negative. A gain or loss on financial assets is recognized directly in other comprehensive income, except for 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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- b) At initial recognition, an irrevocable election is made to present changes in the fair value of an equity instrument that is not held for trading in other comprehensive income. When the equity instrument is derecognized, the amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the cumulative gain or loss may be transferred within equity or into retained earnings directly. Dividends are recognized in profit or loss unless the dividend represents the recovery of part of the investment costs clearly.

3) Financial assets at amortized cost

Financial assets measured at amortized cost include cash and cash equivalents, debt instruments measured at amortized cost, securities under repurchase/resell agreements, loans and receivables, deposits pledged and other financial assets that are not measured at fair value, etc.

Financial assets measured at amortized cost are initially recognized at whose fair value plus transaction costs. After initial recognition, the amortized cost minus impairment loss are determined by using the effective-interest-rate method. The interest income and impairment loss are recognized in profit or loss. Until the financial assets are derecognized, at which time the cumulative gain or loss is charged to profit or loss.

a) Debt instruments at amortized cost

The debt instrument investments held by the Bank and subsidiaries shall be measured at amortized cost if both of the following conditions are met:

- i) The financial assets is held within a business model whose objective is achieved by collecting contractual cash flows.
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank and subsidiaries, whose business model is to hold assets in order to collect contractual cash flows, may sell financial assets when there is an increase in the assets' credit risk. Sales made for other reasons may be consistent with a business model whose objective is to hold financial assets in order to collect contractual cash flows if those sales are infrequent (even if significant in value) or insignificant in value both individually and in aggregate (even if frequent). For debt instruments measured at amortized cost, the effective-interest-rate method shall be used to calculate amortized cost and interest revenue. Credit-impaired loss shall be recognized for assets measured at amortized cost. If, in a subsequent period, 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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b) 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.

c) 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.

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

Loans and receivables are assessed on each reporting day and the credit risk of loans and receivables have been significantly increased since the initial recognition. Comparing the risk of breach of contract on the reporting date and the original date of recognition, and considering the credit risk from the original recognition, the significant increase of reasonable and verifiable information as a basis for the estimation of default risk and expected loss rate. In accordance with the expected credit losses and with reference to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans" and relevant regulations issued by the FSC. The provision will be determined based on the higher of the amount calculated in accordance with regulatory requirements.

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.

Off-balance-sheet loan commitments and financial guarantee contracts should be evaluated for the possibility of bad debts and the provisions of guarantee or financial commitments should be recognized.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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4) Financial asset impairment

The Bank and subsidiaries should consider the past events, the current situation and the forecast of future economic conditions, to identify whether the credit risk of financial instruments have been significantly increased since the initial recognition; After the credit risk has increased significantly, these financial instruments should be recognized lifetime expected credit loss; If there is no significant increase in credit risk after recognition, the impairment loss should be measured against the 12-month expected credit loss. For the judgment and forward-looking adjustment method after the recognition of whether the credit risk has increased significantly, please refer to Note 6(ao).

5) Derecognition of financial assets

The Bank and subsidiaries shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or when the Bank and 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 and 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 and subsidiaries still retained partial risks.

6) Reclassification of financial assets

The Bank and subsidiaries reclassify all affected financial assets in accordance with regulations only when changing the business model of managing financial assets.

(ii) Financial assets (applicable before January 1, 2018)

In accordance with IAS 39, the Bank and subsidiaries' financial assets are as follows:

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 subsidiaries, except for those designated as hedging instruments, are classified under these accounts. The Bank and 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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- 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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- 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 and subsidiaries shall derecognize a financial asset when the contractual rights to the cash flows from the financial asset expire or when the Bank and 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 and 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 and subsidiaries still retained partial risks.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Financial liabilities

The financial liability held by the Bank and 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 measured at fair value through profit or loss, if one of the following conditions is met:
 - i) 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.
 - ii) Financial liability designated as measured at fair value through profit or loss initial recognition, except that designated as a hedged item in accordance with the hedge accounting.

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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Derecognition of a financial liability

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

4) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities will be offset and recognized in the net amount on the balance sheet only when the Bank and subsidiaries have statutory rights to offset and intend to net settle or realize assets and to pay off liabilities at the same time.

5) The Bank and subsidiaries shall not reclassify any financial liability.

(iv) 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 subsidiaries should accounts for financial liabilities embedded in derivatives if the economic characteristics and risks of the embedded derivatives are closely related to the economic characteristics of the host contract. If not, the host contract is not a financial liability that is measured at fair value through profit or loss. Unless choosing to designate an overall hybrid contract to measure financial liabilities at fair value through profit or loss, the Bank and subsidiaries should recognize the host contract and embedded derivatives separately. In addition, the embedded derivative is recognized as financial 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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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.

(v) Financial guarantee contracts

The Bank and subsidiaries recognize financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Bank and 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 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 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 subsidiaries. If these portions could be sold separately, the Bank and 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 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 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 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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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) Interest in joint ventures

The joint agreements include joint operations and joint ventures, and have the following characteristics:

- (i) The parties are bound by a contractual arrangement;
- (ii) The contractual arrangement gives two or more of those parties joint control of the arrangement.

The Bank or its subsidiaries distinguish between joint operations and joint ventures by considering the structure and legal form of the arrangement, the contractual terms agreed to by the parties to the arrangement and, when relevant, other facts and circumstances. In joint operations, the Bank or its subsidiaries accounts for its share of the joint assets, liabilities, revenues and expenses in accordance with the contractual arrangement. In joint ventures, the Bank or its subsidiaries account for its investment using the equity method.

(l) 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."

(m) Premises and equipment

The Bank and subsidiaries' premises 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 premises 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 premises and equipment will flow to the Bank or its subsidiaries, and the cost of premises 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 regarded as capital expenditure; while frequent maintenance or repairs are charged to current expenses.

If the Bank and subsidiaries have obligations to dismantle, remove and restore the property and equipment, the obligation for which the Bank and 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 premises and equipment as well as liability.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 premises 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.

(n) 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 subsidiaries use cost model to proceed subsequently measurement.

(ii) Goodwill

The Bank and 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(o) 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.

(p) Provisions

The Bank and 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 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.

(q) Revenue recognition

The Bank and subsidiaries' incomes are recognized on an accrual basis. Please refer to Note 4(f)(i)3 and (ii)4 loans and receivables for more information on interest income from receivables and loans.

(r) 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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- (ii) Post-employment benefit: The Bank and 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 defined 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(s) Share based payment transactions

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

- (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.

(t) 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.

(u) Income taxes

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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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 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.

(v) **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 subsidiaries shall not recognize a contingent liability; instead, contingent liability shall be appropriately disclosed.

(w) **Operating segments**

An operating segment is a component of the Bank and 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 affiliates). 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 subsidiaries periodically report actual financial results to the Group's Management Board, and thereby leading to its role as the chief operating decision maker.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(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 (IFRSs) endorsed by the 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 could differ from these estimates.

The management should continuously evaluates the estimates and assumptions. Changes in accounting estimates are recognized at the occurrence and the impacted future periods.

Please refer to the following for accounting policies and management judgments which have significant impacts on the financial statements of the Bank and subsidiaries.

(a) Impairment of financial assets

The impairment of financial assets of the Bank and subsidiaries is recognized as the 12-month expected credit loss or the lifetime credit loss by identifying whether the credit risk of financial instruments has been significantly increased since the initial recognition. To evaluate the expected credit losses for 12-month and lifetime, the Bank and subsidiaries consider the default probability (Probability of default, “PD”) of financial assets or issuers or counterparties, and loss given default rate (“LGD”) multiplying the exposure at default (“EAD”), taking into account the time value of money as well evaluate 12-month and lifetime loss. The Bank and subsidiaries consider historical experiences, current market conditions and forward-looking estimates to the assumptions and input values to be used in determining the impairment loss. For the details of the relevant assumptions and input values, please refer to Note 6(ao).

(b) Assessment of goodwill impairment

Assessment of goodwill impairment depends on subjective judgment by the Bank and 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(c) Assessment of the fair value of financial instruments

The Bank and 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 judgement. If the market for an investment held by the Bank and subsidiaries are not active, the fair value of the instrument is determined using valuation techniques. The Bank and 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 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(ao) for the estimated fair value of the above financial instruments.

(6) Summary of Major Accounts:

(a) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	\$ 31,711,183	28,213,172
Petty cash and revolving fund	22,332	22,167
Checks for clearance	4,168,156	4,034,062
Cash in transit	5,128,157	7,660,131
Due from other banks	46,529,659	49,305,110
Total	<u><u>\$ 87,559,487</u></u>	<u><u>89,234,642</u></u>

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

	December 31, 2018	December 31, 2017
Required reserve—Account A	\$ 40,668,559	32,983,852
Required reserve—Account B	50,779,809	47,876,260
Due from Central Bank	115,515,402	110,874,646
Call loans to banks	45,898,349	89,461,007
Bank overdrafts	17,962	-
Total	<u><u>\$ 252,880,081</u></u>	<u><u>281,195,765</u></u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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

	December 31, 2018	December 31, 2017
Designated as financial assets measured at fair value through profit or loss		
Government bonds	\$ -	14,835,334
Corporate bonds	-	2,958,933
Other securities and bonds	1,113,200	1,125,825
Valuation adjustment of financial assets	<u>17,084</u>	<u>(68,617)</u>
Subtotal	<u>1,130,284</u>	<u>18,851,475</u>
Mandatorily measured at fair value through profit or loss		
Commercial paper	\$ 101,208,363	
Negotiable certificate of deposit	4,000,301	
Treasury bills	587	
Government bonds	711,768	
Corporate bonds	4,261,034	
Convertible bonds	8,945	
Financial debentures	6,309,948	
Listed and OTC securities	4,097,546	
Beneficiary certificates	910,908	
Derivative financial assets	41,623,835	
Valuation adjustment of financial assets	<u>(802,915)</u>	
Subtotal	<u>162,330,320</u>	

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	December 31, 2018	December 31, 2017
Financial assets held for trading		
Commercial paper		71,070,961
Negotiable certificate of deposit		3,000,000
Government bonds		762,811
Corporate bonds		448,792
Convertible bonds		594,100
Financial debentures		1,937,292
Asset-backed securities		12,003,226
Listed and OTC securities		1,197,350
Beneficiary certificates		122,736
Derivative financial assets		29,973,952
Valuation adjustment of financial assets		226,307
Subtotal		<u>121,337,527</u>
Total	<u>\$ 163,460,604</u>	<u>140,189,002</u>

Please refer to Note 6(u) and 8 for information with regard to repurchase conditions, or restrictions on, for financial assets measured at fair value through profit or loss shown above.

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

	December 31, 2018	December 31, 2017
Derivative financial liabilities	\$ 55,343,033	33,340,291
Financial liabilities designated at fair value through profit or loss	<u>37,930,181</u>	<u>34,090,353</u>
Total	<u>\$ 93,273,214</u>	<u>67,430,644</u>

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

	December 31, 2018	December 31, 2017
Financial debentures at fair value	\$ 37,930,181	34,090,353
Cumulative changes in fair value that is attributable to changes in the credit risk	310,604	1,422,950
The difference between book value and the amount payable upon maturity as specified in the contract	6,386,805	2,234,663

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, 2018 and 2017, there is no transfer of the cumulative gain or loss within equity.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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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	
	2018	2017
Beginning balance	\$ 3,545,835	3,522,038
Current increase	1,256,405	1,160,587
Current decrease	(3,476,155)	(872,678)
Foreign exchange gain (loss)	104,831	(264,112)
Ending balance	<u><u>\$ 1,430,916</u></u>	<u><u>3,545,835</u></u>

(d) Financial assets measured at fair value through other comprehensive income

	December 31, 2018
Debt investments measured at fair value through other comprehensive income	
Negotiable certificate of deposit	\$ 16,014,499
Treasury bills	954,637
Government bonds	57,507,819
Corporate bonds	14,566,497
Financial debentures	126,297,054
Asset-backed securities	31,581,823
Other securities and bonds	1,518,273
Valuation adjustment of financial assets	<u>15,209</u>
Subtotal	<u>248,455,811</u>
Equity investments measured at fair value through other comprehensive income	
Listed and OTC securities	2,518,495
Unlisted and non-OTC securities	2,211,650
Beneficiary certificates	548,664
Valuation adjustment of financial assets	<u>(68,493)</u>
Subtotal	<u>5,210,316</u>
Total	<u><u>\$ 253,666,127</u></u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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The changes in allowance for credit losses attribute to the financial assets above were as follows :

	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9
Beginning balance	\$ 61,863	-	-	-	61,863
Changes in financial instruments that have been identified at the beginning of the period :					
— The financial assets that have been derecognized	(25,510)	-	-	-	(25,510)
New financial assets originated or purchased	38,973	-	-	-	38,973
Foreign exchange and other movement	(6,046)	-	-	-	(6,046)
Ending balance	<u>\$ 69,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>69,280</u>

For the year ended December 31, 2018, the dividends of the Bank and subsidiaries related to equity investments at fair value through other comprehensive income were as follows:

	<u>For the year ended December 31, 2018</u>
Disposal in the reporting period	\$ 1,740
Amounts held by the end of the reporting period	<u>316,866</u>
Total	<u>\$ 318,606</u>

The Bank and subsidiaries disposed the equity investments measured at fair value through other comprehensive income based on investment consideration for the year ended December 31, 2018. The information of fair value at the date of derecognition and gains (losses) on disposal were as follows:

	<u>For the year ended December 31, 2018</u>	
	<u>The fair value at the date of derecognition</u>	<u>Gains (losses) on disposal</u>
Listed securities	<u>\$ 465,071</u>	<u>(49,961)</u>

Please refer to Notes 6(u) and 8 for information with regard to the repurchase conditions for, or restrictions on, financial assets measured at fair value through other comprehensive income shown above.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(e) Investment in debt instruments at amortized cost

	December 31, 2018
Negotiable certificates of deposit	\$ 379,516,000
Treasury bills	9,700,256
Government bonds	133,664,855
Corporate bonds	49,326,261
Financial debentures	20,268,822
Asset-backed securities	613,886
Others	2,583,921
Less: Allowance for credit losses	(43,335)
Total	<u>\$ 595,630,666</u>

The changes in allowance for credit losses attribute to the above assets were as follows :

	12-month ECL	Lifetime ECL	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit- impaired financial assets)	The provision of impairment in accordance with IFRS 9
Beginning balance	\$ 39,974	-	-	-	39,974
Changes in financial instruments that have been identified at the beginning of the period :					
— The financial assets that have been derecognized	(6,648)	-	-	-	(6,648)
New financial assets originated or purchased	12,015	-	-	-	12,015
Foreign exchange and other movement	(2,006)	-	-	-	(2,006)
Ending balance	<u>\$ 43,335</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,335</u>

The Bank and subsidiaries derecognized investment in debt instruments measured at amortized cost for the purpose of fund management for the year ended December 31, 2018. The information of the carrying amounts at the date of derecognition and gains (losses) on disposal were as follows:

	<u>For the year ended December 31, 2018</u>	
	<u>The carrying amount at the date of derecognition</u>	<u>Gains (losses) on disposal</u>
Government bonds	\$ 1,841,570	30,064
Corporate bonds	1,912,309	-
	<u>\$ 3,753,879</u>	<u>30,064</u>

Please refer to Notes 6(u) and 8 for information with regard to the repurchase conditions for, or restrictions on, investment in debt instruments measured at amortized cost shown above.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2017
Negotiable certificates of deposit	11,439,890
Treasury bills	2,427,358
Government bonds	74,309,874
Corporate bonds	15,839,554
Financial debentures	73,770,279
Fund investment and beneficiary certificates	4,916,233
Listed and OTC securities	4,892,137
Asset-backed securities	27,032,572
Other securities and bonds	596,969
Valuation adjustment of financial assets	(272,582)
Total	<u><u>214,952,284</u></u>

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

(g) Financial instruments — hedging

Hedging derivative financial assets of the Bank were as follows:

	December 31, 2018	December 31, 2017
Fair value hedge:		
Interest rate swaps	\$ -	27,455
Non-delivery forwards	980	10,736
Hedge of a net investment in a foreign operation:		
Currency swaps	33,232	98,819
Total	<u><u>\$ 34,212</u></u>	<u><u>137,010</u></u>

Hedging derivative financial liabilities of the Bank were as follows:

	December 31, 2018	December 31, 2017
Fair value hedge:		
Non-delivery forwards	\$ 15,426	-
Hedge of a net investment in a foreign operation:		
Currency swaps	168,769	16,865
Total	<u><u>\$ 184,195</u></u>	<u><u>16,865</u></u>

(i) For the year ended December 31, 2018, the hedging financial instruments of the Bank have no ineffective portion of hedging.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Fair value hedge

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

Hedged items	Financial instruments designated as hedging instruments	Designated hedging instruments	
		Fair value	
		December 31, 2018	December 31, 2017
Financial debentures in NTD	Interest rate swaps	\$ -	27,455
Capital of international banking department in USD	Non-delivery forwards	(14,446)	10,736

For the year ended December 31, 2017, net gains from the hedging derivative financial instruments and net losses from the hedged items were \$20,808 and \$136,757, respectively.

The information of the Bank designated as the hedged items on December 31, 2018 :

	The carrying amount of the hedged items		The cumulative amount of adjustment included in the carrying amount of the hedged item at fair value hedge		The separate line items of the hedged items included in the balance sheet	The change in the fair value of the ineffective portion of hedging items	Provision of cash flow hedge
	Assets	Liabilities	Assets	Liabilities			
December 31, 2018							
Fair value hedge:							
Currency swaps	\$ 1,072,345	-	3,310	-	Cash and cash equivalents	-	-

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

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

Hedged items	Financial instruments designated as hedging instruments	Designated hedging instruments	
		Fair value	
		December 31, 2018	December 31, 2017
CTBC Bank Co., Ltd.-Ho Chi Minh City Branch	Currency swaps	\$ 2,450	4,585
CTBC Capital Corp.	"	9,312	13,100
CTBC Bank Corp.(Canada)	"	3,039	(4,508)
The Tokyo Star Bank, Ltd.	"	(150,338)	68,777

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iv) The amounts applicable to the hedge accounting that affects the statements of comprehensive income for the year ended December 31, 2018 were as follows :

				Provision of hedge reclassified to profit or loss		
	Recognized in other comprehensive income	Recognized in profit or loss of the ineffective portion of hedging	The separate line items included in the statements of comprehensive income	The hedged items no longer expected to occur and transfer	The hedged items have affected profit or loss and transferred	The separate line items affected by reclassification
December 31, 2018						
Hedge of net investment						
Currency swaps						
— Hedge of a net investment in a foreign operation	\$ (740,474)	-	-	-	-	-

- (v) The amount, timing and uncertainty of the aforementioned hedging instruments affecting the Bank's future cash flow are as follows :

	Maturity date					
	Up to 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	
December 31, 2018						
Fair value hedge						
Non-delivery forwards						
Notional Amount	-	-	USD 35,000	-	-	
Range of FX(TWD/USD)			30.509~30.700			
Hedge of net investment						
Exchange transaction						
Notional Amount	USD 204,500	-	-	-	-	
Range of FX(TWD/USD)	30.80~30.84					
Notional Amount	CAD 10,000	-	-	-	-	
Range of FX(TWD/CAD)	22.922					
Notional Amount	JPY 52,970,726	-	-	-	-	
Range of FX(TWD/JPY)	0.2740~0.2768					

- (h) Securities purchased under resell agreements

	December 31, 2018	December 31, 2017
Securities purchased under resell agreements	\$ 1,481,876	-
Face value of securities	\$ 1,483,020	-

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(i) Receivables—net

	December 31, 2018	December 31, 2017
Notes receivable	\$ 30,540	37,832
Accounts receivable	90,891,694	78,602,773
Accounts receivable factoring	21,578,332	16,750,776
Interest receivable	9,224,066	7,686,189
Acceptances receivable	12,150,952	9,863,773
Accrued income	32,476	66,022
Securities receivable	6,431,641	746,665
Interbank clearing receivable	2,206,146	2,042,802
Premium receivable	17,769,081	4,366,818
Other receivables	<u>5,974,005</u>	<u>3,642,415</u>
Subtotal	166,288,933	123,806,065
Less: Allowance for credit losses	<u>(2,606,084)</u>	<u>(2,759,426)</u>
Total	<u><u>\$ 163,682,849</u></u>	<u><u>121,046,639</u></u>

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

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

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

Please refer to Note 6(ao) for credit risk and market risk information on December 31, 2018. Receivables of the Bank and subsidiaries should be included in impairment assessment, 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. The amount of receivables included in impairment assessment and allowance for credit losses on December 31, 2017 were as follows:

		December 31, 2017		
Items		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		<u><u>\$ 112,043,249</u></u>	<u><u>-</u></u>	<u><u>2,759,426</u></u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(j) Loans — net

	December 31, 2018	December 31, 2017
Corporate loans	\$ 537,654,561	506,428,777
Micro business loans	10,649,313	10,105,055
Mortgage loans	639,376,024	567,562,077
Automobile loans	359	532
Consumer loans	<u>115,548,807</u>	<u>109,064,036</u>
Subtotal of NTD loans	1,303,229,064	1,193,160,477
Foreign currency loans	1,032,120,066	969,540,074
Non-accrual loans	<u>9,522,741</u>	<u>8,529,237</u>
Subtotal	2,344,871,871	2,171,229,788
Less: Allowance for credit losses	(29,991,629)	(27,224,988)
Less: Adjustment of discount and premium	(1,189,317)	(1,359,613)
Fair value adjustment resulting from acquisition	<u>17,231</u>	<u>30,967</u>
Total	<u><u>\$ 2,313,708,156</u></u>	<u><u>2,142,676,154</u></u>

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

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

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

	December 31, 2018	December 31, 2017
Non-performing loans	<u><u>\$ 10,123,335</u></u>	<u><u>8,872,330</u></u>

For the years ended December 31, 2018 and 2017, suspended interest on non-performing loans were as follows:

	For the years ended December 31 2018	2017
Suspended interest on non-performing loans	<u><u>\$ 78,602</u></u>	<u><u>58,899</u></u>

For the years ended December 31, 2018 and 2017, there were no loans written off without recourse.

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

Please refer to Note 6(ao) for credit risk and market risk information on December 31, 2018.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Loans should be included in the total amount of assessment of impairment and the amount of the allowance for credit losses on December 31, 2017, which were as follows:

		December 31, 2017		
Items		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		<u>\$ 2,171,229,788</u>	<u>(1,359,613)</u>	<u>27,224,988</u>

(k) Allowance for credit losses

The changes in allowance for credit losses, attributed to loans, receivables, other financial assets, and financing guarantee etc., were as follows:

(i) Receivables

For the year ended December 31, 2018								
	12-month ECL	Lifetime ECL (collectively assessed)	Lifetime ECL (individually assessed)	Lifetime ECL (Not purchased or originated credit-impaired financial assets)	Lifetime ECL (Purchased or originated credit-impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	Total
Beginning balance	\$ 588,178	201,450	2	1,781,795	11	2,571,436	161,772	2,733,208
Changes in financial instruments that have been identified at the beginning of the period :								
— Transfer to lifetime ECL	(7,043)	7,679	-	(636)	-	-	-	-
— Transfer to the credit-impaired financial assets	(37,729)	(172,369)	-	210,098	-	-	-	-
— Transfer to 12-month ECL	31,950	(23,038)	-	(8,912)	-	-	-	-
— The financial assets that have been derecognized	(35,161)	(3,382)	(1)	(243,149)	-	(281,693)	-	(281,693)
New financial assets originated or purchased	145,655	16,935	-	101,294	2	263,886	-	263,886
Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	-	-	-	-	-	-	184,199	184,199
Write-offs	-	-	-	(1,068,792)	-	(1,068,792)	-	(1,068,792)
Recoveries of amounts previously written off	-	-	-	881,874	-	881,874	-	881,874
Foreign exchange and other movement	(22,151)	66,635	(1)	(151,080)	(1)	(106,598)	-	(106,598)
Ending balance	<u>\$ 663,699</u>	<u>93,910</u>	<u>-</u>	<u>1,502,492</u>	<u>12</u>	<u>2,260,113</u>	<u>345,971</u>	<u>2,606,084</u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Loans

For the year ended December 31, 2018								
	12-month ECL	Lifetime ECL (collectively assessed)	Lifetime ECL (individually assessed)	Lifetime ECL (Not purchased or originated credit- impaired financial assets)	Lifetime ECL (Purchased or originated credit- impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	Total
Beginning balance	\$ 5,366,851	608,624	117,454	7,538,548	36,347	13,667,824	13,642,605	27,310,429
Changes in financial instruments that have been identified at the beginning of the period :								
— Transfer to lifetime ECL	(57,150)	73,397	-	(14,694)	(1,553)	-	-	-
— Transfer to the credit-impaired financial assets	(140,728)	(177,782)	(100,862)	419,291	81	-	-	-
— Transfer to 12-month ECL	232,054	(166,961)	(7,453)	(57,640)	-	-	-	-
— The financial assets that have been derecognized	(1,579,754)	(159,399)	(4,977)	(761,703)	(5,768)	(2,511,601)	-	(2,511,601)
New financial assets originated or purchased	2,120,424	175,677	10,647	1,700,431	22,161	4,029,340	-	4,029,340
Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	-	-	-	-	-	-	2,286,153	2,286,153
Write-offs	(31,008)	(11,927)	-	(3,589,371)	-	(3,632,306)	-	(3,632,306)
Recoveries of amounts previously written off	6,582	-	-	1,375,117	-	1,381,699	-	1,381,699
Foreign exchange and other movement	(394,164)	364,480	(4,175)	1,157,986	3,788	1,127,915	-	1,127,915
Ending balance	<u>\$ 5,523,107</u>	<u>706,109</u>	<u>10,634</u>	<u>7,767,965</u>	<u>55,056</u>	<u>14,062,871</u>	<u>15,928,758</u>	<u>29,991,629</u>

(iii) Short term advances, non-accrual loans and others

For the year ended December 31, 2018								
	12-month ECL	Lifetime ECL (collectively assessed)	Lifetime ECL (individually assessed)	Lifetime ECL (Not purchased or originated credit- impaired financial assets)	Lifetime ECL (Purchased or originated credit- impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	Total
Beginning balance	\$ 36,893	39	-	114,267	-	151,199	-	151,199
Changes in financial instruments that have been identified at the beginning of the period :								
— Transfer to lifetime ECL	-	16	-	(16)	-	-	-	-
— Transfer to the credit-impaired financial assets	-	(12)	-	12	-	-	-	-
— Transfer to 12-month ECL	1,233	(2)	-	(1,231)	-	-	-	-
— The financial assets that have been derecognized	(13,691)	(24)	-	(76,618)	-	(90,333)	-	(90,333)
New financial assets originated or purchased	5,822	7	-	47,212	-	53,041	-	53,041
Write-offs	-	-	-	(91,579)	-	(91,579)	-	(91,579)
Foreign exchange and other movement	(5,457)	15	-	130,810	-	125,368	-	125,368
Ending balance	<u>\$ 24,800</u>	<u>39</u>	<u>-</u>	<u>122,857</u>	<u>-</u>	<u>147,696</u>	<u>-</u>	<u>147,696</u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Financing commitment and guarantee reserve

For the year ended December 31, 2018								
	12-month ECL	Lifetime ECL (collectively assessed)	Lifetime ECL (individually assessed)	Lifetime ECL (Not purchased or originated credit- impaired financial assets)	Lifetime ECL (Purchased or originated credit- impaired financial assets)	The provision of impairment in accordance with IFRS 9	Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans"	Total
Beginning balance	\$ 364,120	9,052	12	167,192	1,951	542,327	524,571	1,066,898
Changes in financial instruments that have been identified at the beginning of the period :								
— Transfer to lifetime ECL	(2,644)	4,491	-	(1,847)	-	-	-	-
— Transfer to the credit-impaired financial assets	(2,732)	(516)	-	3,248	-	-	-	-
— Transfer to 12-month ECL	5,642	(4,778)	-	(864)	-	-	-	-
— The financial assets that have been derecognized	(77,784)	(1,906)	(12)	(843)	-	(80,545)	-	(80,545)
New financial assets originated or purchased	96,801	2,625	-	52,619	-	152,045	-	152,045
Additional provision of impairment in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non- accrual Loans"	-	-	-	-	-	-	15,748	15,748
Write-offs	-	-	-	(2,973)	-	(2,973)	-	(2,973)
Recoveries of amounts previously written off	-	-	-	1,806	-	1,806	-	1,806
Foreign exchange and other movement	(13,737)	1,515	-	(1,891)	(1,815)	(15,928)	-	(15,928)
Ending balance	<u>\$ 369,666</u>	<u>10,483</u>	<u>-</u>	<u>216,447</u>	<u>136</u>	<u>596,732</u>	<u>540,319</u>	<u>1,137,051</u>

For the year ended December 31, 2017								
	Receivables			Loans			Other (Note)	Total
	Inherent risk of overall claims	Default risk of specific claim	Total	Inherent risk of overall claims	Default risk of specific claims	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	<u>\$ 1,045,647</u>	<u>1,713,779</u>	<u>2,759,426</u>	<u>19,869,068</u>	<u>7,355,920</u>	<u>27,224,988</u>	<u>1,019,387</u>	<u>31,003,801</u>

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

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	December 31, 2017
Negotiable certificates of deposit	\$ 493,095,078
Treasury bills	3,663,716
Government bonds	99,668,188
Corporate bonds	22,374,859
Financial debentures	24,626,457
Asset-backed securities	480,915
Total	\$ 643,909,213

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

(m) Investment under equity method — net

	December 31, 2018	
	%	Book value
<u>Associates</u> :		
Grand Bills Finance Corporation (original investment at 1,010,880 thousand)	21.15	\$ 1,975,668
AZ-Star Co., Ltd. (original investment at JPY12,000 thousand)	40.00	20,511
AZ-Star 1 Investment Limited Partnership (original investment at JPY2,333,068 thousand)	43.98	105,543
AZ-Star 3 Investment Limited Partnership (original investment at 550,500 thousand)	30.86	153,204
LH Financial Group Public Company Limited (original investment at THB16,598,915 thousand)	35.62	16,520,616
<u>Joint venture</u> :		
Xiamen Jinmeixin Consumer Finance Co., Ltd. (original investment at CNY170,000 thousand)	34.00	761,208
Total		\$ 19,536,750

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	December 31, 2017	
	%	Book value
<u>Associates</u> :		
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

For the years ended December 31, 2018 and 2017, the amount of profit and loss from associates recognized under equity-method investments were as below:

	For the years ended December 31	
	2018	2017
Associates	\$ 1,299,756	1,404,768
Joint venture	456	-
Total	\$ 1,300,212	1,404,768

(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 had significant influence on it. The relevant information was as follows:

Name of Associates	Nature of Relationship with the Bank	Main operating location/Registered Country of the Company	Percentage of Ownership	
			December 31, 2018	December 31, 2017
LH Financial Group Public Company Limited	Investment under equity method	Thailand	35.62 %	35.62 %

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

	December 31, 2018	December 31, 2017
LH Financial Group Public Company Limited	\$ 9,646,112	11,667,151

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

	December 31, 2018	December 31, 2017
Total assets	\$ 233,390,597	213,296,979
Total liabilities	(195,706,681)	(178,019,203)
Net assets	\$ 37,683,916	35,277,776

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	For the years ended December 31	
	2018	2017
Net revenue	\$ 4,005,195	3,439,659
Net income from continuing operations	2,900,562	2,373,559
Other comprehensive income	(538,569)	178,912
Comprehensive income	<u>\$ 2,361,993</u>	<u>2,552,471</u>
	December 31,	December 31,
	2018	2017
Proportionate share of net assets of associates	\$ 13,421,880	12,564,885
Add: Premium on the investment under equity method	3,098,736	3,098,736
Book value of associates	<u>\$ 16,520,616</u>	<u>15,663,621</u>

(ii) Information of insignificant associates:

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

	For the years ended December 31	
	2018	2017
Net income from continuing operations	\$ 266,663	1,001,473
Other comprehensive income	(9,478)	34,613
Comprehensive income	<u>\$ 257,185</u>	<u>1,036,086</u>

(iii) Joint venture

Xiamen Jinmeixin Consumer Finance Co., Ltd. was jointly invested by the Bank, GOME Holdings Group Co., Ltd. and Xiamen Jin Yuan Financial Holding Co., Ltd. on October 10, 2018. The interestment was joint ventures accounted for using equity method. The Bank had 34% ownership of the joint venture and with the investment amounted to RMB 170,000 thousand.

The amount of the investments in individually insignificant joint venture accounted for using equity method by the Bank and subsidiaries were shown below:

	For the year ended December 31, 2018
Net income from continuing operations	\$ 456
Other comprehensive income	(34,719)
Comprehensive income	<u>\$ (34,263)</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(n) Other financial assets — net

	December 31, 2018	December 31, 2017
Short term advances	\$ 1,914,653	1,497,797
Less: Allowance for credit losses — short-term advances	(49,128)	(42,260)
Deposits pledged	368,742	473,695
Investment in debt instruments without active markets—net	-	12,281,846
Financial assets carried at cost—net	-	2,691,927
Non-accrual loans transferred from non-loan financial assets	106,119	96,561
Less: Allowance for credit losses— non-accrual loans transferred from non-loan financial assets	(71,681)	(80,643)
Others	47,918	942,537
Total	<u><u>\$ 2,316,623</u></u>	<u><u>17,861,460</u></u>

Please refer to Note 6(k) 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.

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

(o) Investment property — net

December 31, 2018				
Asset	Cost	Accumulated depreciation	Accumulated impairment	Book value
Land	\$ 1,558,106	-	134,598	1,423,508
Buildings	690,309	219,263	52,597	418,449
Total	<u><u>\$ 2,248,415</u></u>	<u><u>219,263</u></u>	<u><u>187,195</u></u>	<u><u>1,841,957</u></u>
Fair value				\$ <u><u>2,905,723</u></u>

December 31, 2017				
Asset	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	<u><u>\$ 2,647,911</u></u>	<u><u>255,215</u></u>	<u><u>185,573</u></u>	<u><u>2,207,123</u></u>
Fair value				\$ <u><u>3,326,634</u></u>

Changes in the cost were as follows:

	January 1, 2018	Current increase	Current decrease	Others	December 31, 2018
Land	\$ 1,807,400	95,476	344,770	-	1,558,106
Buildings	840,511	25,005	175,207	-	690,309
Total	<u><u>\$ 2,647,911</u></u>	<u><u>120,481</u></u>	<u><u>519,977</u></u>	<u><u>-</u></u>	<u><u>2,248,415</u></u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	January 1, 2017	Current increase	Current decrease	Others	December 31, 2017
Land	\$ 3,645,587	5,542	1,843,729	-	1,807,400
Buildings	1,433,991	8,808	602,288	-	840,511
Total	<u>\$ 5,079,578</u>	<u>14,350</u>	<u>2,446,017</u>	<u>-</u>	<u>2,647,911</u>

Changes in accumulated depreciation were as follows:

	January 1, 2018	Current increase	Current decrease	Others	December 31, 2018
Buildings	<u>\$ 255,215</u>	<u>20,558</u>	<u>56,510</u>	<u>-</u>	<u>219,263</u>

	January 1, 2017	Current increase	Current decrease	Others	December 31, 2017
Buildings	<u>\$ 431,397</u>	<u>26,786</u>	<u>202,968</u>	<u>-</u>	<u>255,215</u>

Changes in accumulated impairment were as follows:

	January 1, 2018	Current increase	Current decrease	Others	December 31, 2018
Land	\$ 132,725	2,304	431	-	134,598
Buildings	52,848	-	251	-	52,597
Total	<u>\$ 185,573</u>	<u>2,304</u>	<u>682</u>	<u>-</u>	<u>187,195</u>

	January 1, 2017	Current increase	Current decrease	Others	December 31, 2017
Land	\$ 149,316	18,248	34,839	-	132,725
Buildings	48,725	9,331	5,208	-	52,848
Total	<u>\$ 198,041</u>	<u>27,579</u>	<u>40,047</u>	<u>-</u>	<u>185,573</u>

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

The Bank and subsidiaries have no pledged investment properties.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(p) Premises and equipment — net

December 31, 2018	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	\$ 13,370,636	-	41,383	13,329,253
Buildings	30,819,331	6,361,423	23,610	24,434,298
Transportation equipment	58,169	34,186	-	23,983
Miscellaneous equipment	9,143,939	4,770,082	-	4,373,857
Construction in progress	74,257	-	-	74,257
Prepayment for equipment	175,626	-	-	175,626
Prepayment for land and buildings	4,928,334	-	-	4,928,334
Leased premises	1,172,611	515,222	-	657,389
Total	\$ 59,742,903	11,680,913	64,993	47,996,997

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

Changes in the cost were as follows:

	January 1, 2018	Current increase	Current decrease	Others (exchange difference)	December 31, 2018
Land	\$ 13,097,269	340,533	95,476	28,310	13,370,636
Buildings	28,831,851	2,296,049	370,829	62,260	30,819,331
Transportation equipment	63,308	8,762	12,408	(1,493)	58,169
Miscellaneous equipment	7,830,080	1,700,501	431,540	44,898	9,143,939
Construction in progress	1,006,291	1,061,989	1,996,724	2,701	74,257
Prepayment for equipment	86,878	251,161	162,413	-	175,626
Prepayment for land and buildings	4,644,205	284,129	-	-	4,928,334
Leased premises	1,267,926	76	134,339	38,948	1,172,611
Total	\$ 56,827,808	5,943,200	3,203,729	175,624	59,742,903

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	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	<u>\$ 55,470,749</u>	<u>4,909,379</u>	<u>3,221,343</u>	<u>(330,977)</u>	<u>56,827,808</u>

Changes in accumulated depreciation were as follows:

	January 1, 2018	Current increase	Current decrease	Others (exchange difference)	December 31, 2018
Buildings	\$ 5,576,903	1,062,138	332,578	54,960	6,361,423
Transportation equipment	33,293	9,981	8,380	(708)	34,186
Miscellaneous equipment	4,072,783	1,090,175	420,223	27,347	4,770,082
Leased premises	467,461	163,732	131,600	15,629	515,222
Total	<u>\$ 10,150,440</u>	<u>2,326,026</u>	<u>892,781</u>	<u>97,228</u>	<u>11,680,913</u>

	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	<u>\$ 9,348,993</u>	<u>2,196,909</u>	<u>1,221,385</u>	<u>(174,077)</u>	<u>10,150,440</u>

Changes in accumulated impairment were as follows :

	January 1, 2018	Current increase	Current decrease	Others (exchange difference)	December 31, 2018
Land	\$ 41,383	-	-	-	41,383
Buildings	23,590	20	-	-	23,610
Total	<u>\$ 64,973</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>64,993</u>

	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	<u>\$ 64,962</u>	<u>11</u>	<u>-</u>	<u>-</u>	<u>64,973</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(q) Intangible assets — net

	December 31, 2018	December 31, 2017
Goodwill	\$ 10,385,891	10,385,891
Computer software	<u>5,427,820</u>	<u>4,481,299</u>
Total	<u>\$ 15,813,711</u>	<u>14,867,190</u>

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

Changes in intangible assets were as follows:

	January 1, 2018	Current increase	Current decrease	Others (exchange difference)	December 31, 2018
Goodwill	\$ 10,385,891	-	-	-	10,385,891
Computer software	<u>4,481,299</u>	<u>3,104,387</u>	<u>2,259,073</u>	<u>101,207</u>	<u>5,427,820</u>
Total	<u>\$ 14,867,190</u>	<u>3,104,387</u>	<u>2,259,073</u>	<u>101,207</u>	<u>15,813,711</u>

	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	<u>1,031</u>	<u>-</u>	<u>1,031</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,800,180</u>	<u>1,462,464</u>	<u>1,294,024</u>	<u>(101,430)</u>	<u>14,867,190</u>

(r) Other assets — net

	December 31, 2018	December 31, 2017
Prepayments	\$ 7,038,339	4,711,966
Foreclosed properties received — net	170,918	137,389
Temporary payments	1,493,920	55,547
Refundable deposits — net	17,944,419	10,908,349
Long-term prepaid rent	2,517,498	2,584,780
Cash surrender value of life insurance	1,801,928	1,728,728
Others	<u>1,119,600</u>	<u>1,191,154</u>
Total	<u>\$ 32,086,622</u>	<u>21,317,913</u>

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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2018, the account balance was \$200,000.

(s) Deposits from Central Bank and other banks

	December 31, 2018	December 31, 2017
Deposits from Central Bank	\$ 210,705	216,674
Deposits from other banks	27,508,521	22,151,951
Deposits from post offices	493,473	1,147,904
Overdraft against other banks	7,220,370	1,137,347
Due to other banks	39,065,623	50,220,907
Total	<u>\$ 74,498,692</u>	<u>74,874,783</u>

(t) Due to Central Bank and other banks

	December 31, 2018	December 31, 2017
Financing from Central Bank	\$ 1,323,294	1,608,414
Financing from other banks	2,286,889	2,715,462
Total	<u>\$ 3,610,183</u>	<u>4,323,876</u>

Financing from Central Bank:

(i) The Bank

	December 31, 2018	December 31, 2017
Borrowings (USD)	\$ 12,903	25,806
Interest rate	2.52% 6M LIBOR	1.45% 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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) The Tokyo Star Bank, Ltd.

	December 31, 2018	December 31, 2017
Borrowings (JPY)	\$ 3,330,000	3,164,000
Interest rate	2.53%~2.88%	1.46%~1.66%
Maturity date	December 4, 2019	December 4, 2018
Interest payment	at the maturity date	at the maturity date

Financing from other banks:

(i) CTBC Bank Corp. (USA)

	December 31, 2018	December 31, 2017
Inter bank borrowings (USD)	\$ 55,000	65,000
Interest rate	2.57%~2.96%	0.96%~2.96%
Maturity date	December 31, 2020	December 31, 2020

(ii) PT. Bank CTBC Indonesia

	December 31, 2018	December 31, 2017
Inter bank borrowings (IDR)	\$ 975,236,538	352,315,972
Interest rate	3.34%~8.71%	1.77%~6.55%
Maturity date	July 30, 2020	March 28, 2018

(u) Securities sold under repurchase agreements

	December 31, 2018			
Assets	Par value	Selling price (Note)	Designated repurchase amount	Designated repurchase date
Financial assets measured at fair value through profit or loss	\$ 10,366,606	10,246,333	10,258,642	Before January 29, 2019
Financial assets measured at fair value through other comprehensive income	25,071,635	23,881,233	23,978,146	Before March 19, 2019
Investment in debt instruments at amortized cost	27,374,133	26,830,060	26,917,294	Before February 25, 2019
Total	<u>\$ 62,812,374</u>	<u>60,957,626</u>	<u>61,154,082</u>	

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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	<u>\$ 62,500,769</u>	<u>62,742,896</u>	<u>62,818,505</u>	

Note: Recognized under securities sold under repurchase agreements.

(v) Payables

	December 31, 2018	December 31, 2017
Accounts payable	\$ 9,235,653	8,311,919
Accounts payable factoring	5,158,097	3,508,696
Accrued expenses	17,808,819	17,872,017
Interest payable	9,875,553	6,922,160
Acceptances payable	11,198,063	9,699,440
Collection payable	3,960,175	3,835,308
Checks for clearance	3,782,978	3,988,688
Miscellaneous lottery accounts payable	6,588,088	8,668,370
Other payables	<u>8,372,989</u>	<u>6,472,400</u>
Total	<u>\$ 75,980,415</u>	<u>69,278,998</u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(w) Deposits and remittances

	December 31, 2018	December 31, 2017
NTD deposits		
Checking accounts	\$ <u>10,731,101</u>	<u>9,595,727</u>
Demand deposits		
Demand deposits	200,706,950	194,135,739
Demand savings deposits	733,530,119	677,104,314
Public treasury deposits	<u>9,226,288</u>	<u>10,073,470</u>
Subtotal of demand deposits	<u>943,463,357</u>	<u>881,313,523</u>
Time deposits		
Time deposits	209,469,169	199,188,241
Time savings deposits	443,003,524	431,511,895
Negotiable certificates of deposit	1,215,600	1,266,500
Public treasury deposits	30,547,750	26,050,000
Others	<u>14,248,500</u>	<u>10,312,500</u>
Subtotal of time deposits	<u>698,484,543</u>	<u>668,329,136</u>
Subtotal of NTD deposits	<u>1,652,679,001</u>	<u>1,559,238,386</u>
Foreign currency deposits	1,498,342,159	1,419,869,067
Stored value cards	167	167
Remittances under custody	83,521	111,378
Remittances outstanding	<u>5,662,127</u>	<u>2,626,218</u>
Total	<u><u>\$ 3,156,766,975</u></u>	<u><u>2,981,845,216</u></u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(x) Financial debentures

Bonds	December 31, 2018	December 31, 2017
2008-1	\$ 2,000,000	2,000,000
2011-1	4,000,000	12,900,000
2014-1	20,000,000	20,000,000
2014-2	15,000,000	15,000,000
2015-1 (Note 3)	7,898,381	7,670,936
2015-2	12,000,000	12,000,000
2015-3	5,000,000	5,000,000
2016-1 (Note 3)	23,971,740	23,281,440
2017-1 (Note 3)	5,531,940	5,372,640
2017-2	1,000,000	1,000,000
2018-1 (Note 3)	6,914,925	-
No.16 Callable Unsecured Bond	-	291,390
No.17 Callable Unsecured Bond	-	1,086,090
Adjustment for fair value increase of hedged transactions	-	28,322
Unamortized discount	(8)	(15,359)
Less: financial liability designated at fair value through profit or loss(Note 3)	(44,316,986)	(36,325,016)
Total	\$ 58,999,992	69,290,443

Bonds	Terms of transactions			Bond issued
	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	06/18/2014	N/A	A=3.70%, B=4.00%.	Perpetual non accumulated subordinated financial debentures
2014-2	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%	"
2018-1	03/29/2018	03/29/2048	0% (Note 3)	"
No.16 Callable Unsecured Bond	03/13/2013	03/13/2023	3.28%; an interest is payable semi annually	Unsecured subordinated financial debentures
No.17 Callable Unsecured Bond	06/06/2013	06/06/2023	3.46%; an interest is payable semi annually	"

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2017-1 and 2018-1 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(g) for the information on the hedging of bonds shown above.

(y) Other financial liabilities

	December 31, 2018	December 31, 2017
Lease payable	\$ 652,316	785,608
Structured products	99,921,393	101,319,263
Guarantee deposit-securities lending transaction	19,337,702	30,656,153
Others	<u>-</u>	<u>132</u>
Total	<u>\$ 119,911,411</u>	<u>132,761,156</u>

(z) Provisions

	December 31, 2018	December 31, 2017
Settlement compensation provision	\$ 242,512	240,175
Employee benefits provision	3,868,465	4,299,985
Guarantee reserve	857,258	870,320
Financing commitment provision	279,793	-
Other provisions	<u>266,963</u>	<u>210,872</u>
Total	<u>\$ 5,514,991</u>	<u>5,621,352</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(aa) Other liabilities

	December 31, 2018	December 31, 2017
Amount received in advance	\$ 376,991	461,803
Payable in custody	212,842	559,212
Deferred income	1,760,027	1,082,314
Guarantee deposits received	6,180,527	6,152,347
Temporary receipt	2,003,154	1,539,130
Others	<u>136,220</u>	<u>213,254</u>
Total	<u><u>\$ 10,669,761</u></u>	<u><u>10,008,060</u></u>

(ab) 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, 2018 and 2017, the pension expense under defined contribution plan of the Bank and subsidiaries amounted to \$668,590 and \$689,526, 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, 2018	December 31, 2017
Defined benefits plan	\$ 3,072,283	3,543,414
Retiree deposits with favorable rates and other post-employment benefits	423,560	394,818
Total	<u><u>\$ 3,495,843</u></u>	<u><u>3,938,232</u></u>

1) Defined benefits plan

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

	December 31, 2018	December 31, 2017
Present value of defined benefits obligation	\$ 8,547,998	8,997,332
Fair value of plan assets	<u>(5,475,715)</u>	<u>(5,453,918)</u>
Net defined benefit liability	<u><u>\$ 3,072,283</u></u>	<u><u>3,543,414</u></u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 earning rate and fund assets 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, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Defined benefits obligation at January 1	\$ 8,997,332	9,340,926
Current service costs and interest	164,133	231,625
Remeasurements of net defined benefit liability		
Actuarial losses arising from changes in financial assumption	-	203,343
Actuarial gains arising from experience adjustments	(114,937)	(339,199)
Benefits paid by the plan	(498,530)	(439,363)
Defined benefits obligation at December 31	<u><u>\$ 8,547,998</u></u>	<u><u>8,997,332</u></u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Fair value of plan assets at January 1	\$ 5,453,918	5,414,874
Interest income	40,904	67,686
Remeasurements of net defined benefit liability		
Return on plan assets (exclude current interest)	160,774	50,017
Contribution plans made	318,649	360,704
Benefits paid by the plan	(498,530)	(439,363)
Fair value of plan assets at December 31	<u><u>\$ 5,475,715</u></u>	<u><u>5,453,918</u></u>

d) Expense recognized in profit or loss

The expenses recognized in profit or loss for the Bank for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Current service costs	\$ 97,043	114,863
Net interest of net defined benefit liability	26,576	49,076
Total	<u><u>\$ 123,619</u></u>	<u><u>163,939</u></u>

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, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Cumulative amount at January 1	\$ (1,280,157)	(1,466,030)
Recognized during the period	275,711	185,873
Cumulative amount at December 31	<u><u>\$ (1,004,446)</u></u>	<u><u>(1,280,157)</u></u>

f) Primary actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	0.75 %	0.75 %
Increasing rate of future compensation levels	3.00 %	3.00 %

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

The Bank expected \$99,793 in contributions to be paid to defined benefit plans within a year after report date of 2018.

Weighted average duration base on defined benefits plan was 5 years.

g) Sensitivity analysis

When adopted primary actuarial assumption changes, the effects of present value of the benefits obligation as at December 31, 2018 and 2017 were as follows:

	Present value of the benefits obligation effects	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2018		
Discount rate	(79,354)	81,292
December 31, 2017		
Discount rate	(102,934)	105,543

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 plan assets were as follows:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Present value of defined benefits obligation	\$ 423,560	397,046
Fair value of plan assets	-	-
Net defined benefit liability	<u>\$ 423,560</u>	<u>397,046</u>

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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Defined benefits obligation at January 1	\$ 397,046	241,363
Current service costs and interest	18,337	17,855
Past service costs	21,684	173,595
Remeasurements of net defined benefit liability		
Actuarial (losses) gains arising from changes in demographic assumptions	(3,204)	2,411
Actuarial gains (losses) arising from changes in financial assumptions	5,113	(23,561)
Actuarial gains arising from experience adjustments	4,939	3,367
Benefits paid by the plan	(20,355)	(17,984)
Defined benefits obligation at December 31	<u><u>\$ 423,560</u></u>	<u><u>397,046</u></u>

b) Expense recognized in profit or loss

The expense recognized in profit or loss for the Bank for the years ended December 31, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Past service costs	\$ 21,684	173,595
Current service costs	8,177	8,079
Net interest of net defined benefit liability	10,160	9,776
Total	<u><u>\$ 40,021</u></u>	<u><u>191,450</u></u>

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, 2018 and 2017 were as follows:

	For the years ended December 31	
	2018	2017
Cumulative amount at January 1	\$ (13,618)	(33,629)
Recognized during the period	(9,076)	20,011
Cumulative amount at December 31	<u><u>\$ (22,694)</u></u>	<u><u>(13,618)</u></u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

d) Primary actuarial assumptions

	December 31, 2018		December 31, 2017	
	Favorable rates for employee deposits	Other post- employment benefits	Favorable rates for employee deposits	Other post- employment benefits
Discount rate	4.00%	1.375%~1.5%	4.00%	1.625%
Expected rate of return on deposited fund	2.00%	1.375%~1.5%	2.00%	1.625%
Yearly rate of decrease on account balance/utilization rate on subsidy for health examination and social networking	2.00%	33%~69%	1.85%	33%~72%
Probability of future changes in favorable rates deposits scheme	50.00%	-	50.00%	-

e) Sensitivity analysis

When adopted primary actuarial assumption changes, the effects of present value of the benefits obligation as at December 31, 2018 and 2017 were as follows:

	Present value of the benefits obligation effects	
Favorable rates for employee deposits	Increase 0.25%	Decrease 0.25%
December 31, 2018		
Discount rate	\$ (4,855)	5,082
Yearly rate of decrease on account balance	(5,158)	5,387
December 31, 2017		
Discount rate	(4,614)	4,831
Yearly rate of decrease on account balance	(4,894)	5,112
	Present value of the benefits obligation effects	
Other post- employment benefits	Increase 0.25%	Decrease 0.25%
December 31, 2018		
Discount rate	\$ (8,699)	9,228
December 31, 2017		
Discount rate	(7,020)	7,375

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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2018	December 31, 2017
Defined benefits plan	\$ 372,622	361,753

For the years ended December 31, 2018 and 2017, expenses recognized by overseas branches and subsidiaries in profit and loss amounted to \$143,050 and \$128,871, respectively.

For the years ended December 31, 2018 and 2017, other comprehensive income recognized by overseas subsidiaries in actuarial profit and loss amounted to \$48,933 and \$(53,403), respectively.

(ac) Income tax

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, the corporate income tax rate increased from 17% to 20%.

(i) Income tax

For the years ended December 31, 2018 and 2017 the income tax expenses and related accounts were as follows:

	For the years ended December 31 2018	2017
Current income tax expenses	\$ (5,826,868)	(4,958,155)
Deferred income tax expenses	(534,392)	(1,667,077)
Effects of change in tax rate	312,354	-
Income tax expenses	<u><u>\$ (6,048,906)</u></u>	<u><u>(6,625,232)</u></u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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For the years ended December 31, 2018 and 2017, the income tax (expense) benefits recognized under other comprehensive income were as follows:

	For the years ended December 31	
	2018	2017
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement losses related to defined benefit plans	\$ (58,582)	(32,078)
Proportionate share of other comprehensive income from associates or joint ventures under the equity method	179	969
Effects of change in tax rate	22,049	-
Total	<u>\$ (36,354)</u>	<u>(31,109)</u>
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences of overseas subsidiaries' financial reports translation	\$ (326,610)	431,418
Unrealized valuation gains on available-for-sale financial assets	-	(217,340)
Gains on valuation of debt instrument measured at fair value through other comprehensive income	25,092	-
Proportionate share of other comprehensive income from associates or joint ventures under the equity method	39,676	(29,791)
Effects of change in tax rate	211,621	-
Total	<u>\$ (50,221)</u>	<u>184,287</u>

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

	For the years ended December 31	
	2018	2017
Net income before income tax	\$ 35,731,519	36,648,391
Straight income tax	(8,521,605)	(8,058,954)
Effects of foreign and domestic tax rate spread	164,313	(297,768)
Tax-exempt income	1,651,260	2,044,278
Adjustments of prior year's income tax	(225,337)	243,111
10% surtax on undistributed earnings	-	(3)
Effects of change in tax rate	312,354	-
Others	570,109	(555,896)
Income tax expense	<u>\$ (6,048,906)</u>	<u>(6,625,232)</u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ii) Deferred tax assets and liabilities

The movements of deferred tax assets and liabilities for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31, 2018				
	Beginning Balance	Recognize in profit and loss	Recognize in other comprehensive income	Others	Ending Balance
Proportion of losses (gains) recognized from the investments in associates and joint ventures under equity method	\$ 12,195	(344,488)	-	2,152	(330,141)
Unrealized (gains) losses on foreign exchange and derivative financial instruments	(451,788)	195,917	-	(21,117)	(276,988)
Allowance for credit losses	2,452,663	311,540	-	221,382	2,985,585
Unrealized (gains) losses on financial assets measured at fair value through other comprehensive income	(52,116)	-	25,092	5,853	(21,171)
Impairment losses (gains) on assets	12,302	(44)	-	3,474	15,732
Employee benefits liability	483,788	(27,301)	-	189,981	646,468
Settlement compensation provision	15,523	(415)	-	2,738	17,846
Guarantee reserve	111,842	(77)	-	5,883	117,648
Exchange differences of overseas subsidiaries' financial reports translation	1,188,491	-	(326,610)	222,318	1,084,199
Defined benefit plan actuarial losses (gains)	219,942	-	(58,582)	(72,907)	88,453
Loss carryforward and others	2,102,459	(669,524)	-	108,674	1,541,609
Deferred tax assets (liabilities)- net	\$ 6,095,301	(534,392)	(360,100)	668,431	5,869,240
Information disclosed in balance sheet:					
Deferred income tax assets	\$ 6,953,413				6,968,418
Deferred tax liabilities	(858,112)				(1,099,178)
Total	\$ 6,095,301				5,869,240

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

	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 financial 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 (gains)	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

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

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

Note : 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	Litigation
CTBC Insurance Brokers Co., Ltd. (dissolved)	2009	Interest income and operating expenses allocation of exempt income

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

(i) Capital stock

As of December 31, 2018, 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.

(ii) Capital surplus

The components and sources of capital surplus were as follows:

	December 31, 2018	December 31, 2017
Additional paid-in capital — stock	\$ 28,607,197	28,607,197
Share based payment transactions	1,184,264	1,184,264
Others	<u>(2,773)</u>	<u>(2,773)</u>
Total	<u>\$ 29,788,688</u>	<u>29,788,688</u>

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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(iii) Other equity interest

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

	Exchange differences of overseas subsidiaries' financial reports translation	Unrealized (losses) gains from financial assets measured at fair value through other comprehensive income	Unrealized (losses) gains on available-for-sale financial assets	Changes in financial liabilities designated at fair value through profit or loss attributable to credit risk	Total
January 1, 2018	\$ (8,500,761)	-	(973,883)	(1,422,950)	(10,897,594)
Effects of retrospective application of new standards	(804)	(670,662)	973,883	-	302,417
Balance at January 1, 2018 after adjustments	(8,501,565)	(670,662)	-	(1,422,950)	(10,595,177)
Translation difference of exchange differences of overseas subsidiaries' net assets	2,619,794	-	-	-	2,619,794
Losses on designated as hedging instruments in a hedge of the net investments in overseas subsidiaries	(740,474)	-	-	-	(740,474)
Unrealized gains or losses from financial assets measured at fair value through other comprehensive income	-	(415,763)	-	-	(415,763)
Cumulative gains reclassified to profit or loss on disposal of investments in debt instrument at fair value through other comprehensive income	-	418,658	-	-	418,658
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	47,355	-	-	47,355
Proportionate share of other comprehensive income from associates under equity method	-	(201,958)	-	-	(201,958)
Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	-	-	-	1,112,346	1,112,346
December 31, 2018	\$ (6,622,245)	(822,370)	-	(310,604)	(7,755,219)

	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)

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ae) 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 2017 earnings distribution of the Bank was approved by the board of directors, on behalf of shareholders' meeting on May 25, 2018, and cash dividend amounted to \$17,462,052 was distributed.

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.

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.

(af) Share based payment transactions

For the years ended December 31, 2018 and 2017, the Bank and 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			
	2014	2015	2016	2017
Grant date	02.06.2015	02.04.2016	01.25.2017	02.08.2018
Grant number	239,965	225,964	186,774	187,370
Exercise period	12.31.2017	12.31.2018	12.31.2019	12.31.2020
Exercise price at grant date	20.35	14.92	17.82	21.39

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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The Bank and 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 subsidiaries' Employee Stock Appreciation Rights Plan (SARs):

For the year ended December 31, 2018						
Management stock appreciation rights plan for the years						
	2015		2016		2017	
	Number	Weighted-average exercise price	Number	Weighted-average exercise price	Number	Weighted-average exercise price
Outstanding at the beginning of the period	258,404	11.94	194,556	16.11	187,422	20.32
Granted during the period	16,832	11.94	7,559	16.11	9,815	20.32
Forfeited during the period	12,090	11.94	3,238	16.11	2,405	20.32
Exercised during the period	263,146	11.94	2,043	16.11	2,045	20.32
Expired during the period	-	11.94	-	16.11	-	20.32
Outstanding at the end of the period	-	11.94	196,834	16.11	192,787	20.32
Exercisable at the end of the period	-	11.94	-	16.11	-	20.32

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 years ended December 31, 2018, the weighted-average stock prices executed under SARs for 2015, 2016 and 2017 were \$20.70, \$21.57 and \$21.67(in dollars), respectively.

As of December 31, 2018, the weighted average remaining durations of outstanding shares under SARs for 2016 and 2017 were 1.00 and 2.00 years, respectively.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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On January 25, 2019, the Bank's board of directors has passed Management Stock Appreciation Rights Plan for the Year 2018. 239,507 units of share based payment have been granted, with the execution price of \$20.24 (in dollars). On the execution date of December 31, 2021, the plan is intended to be settled through cash payments. The Bank and subsidiaries recognized current service cost based on the proportion of vested period in 2018.

(ag) EPS

	For the years ended December 31	
	2018	2017
Net income attributable to common stockholders	\$ <u>29,680,076</u>	<u>30,021,451</u>
Weighted-average outstanding shares of common stock (in thousands)	<u>14,068,572</u>	<u>14,068,572</u>
Basic EPS (in dollars)	\$ <u>2.11</u>	<u>2.13</u>

Retroactive adjustments are applied to the Bank's basic EPS for the year ended December 31, 2017.

Since the Bank and 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.

(ah) Net interest income

	For the years ended December 31	
	2018	2017
<u>Interest income</u>		
Loan	\$ 58,683,766	52,581,376
Revolving credit	2,864,182	2,605,871
Securities	11,896,579	8,663,482
Due from Central Bank	417,738	398,476
Due from banks and call loans to banks	3,143,208	2,351,976
Hedging derivatives	75,175	97,660
Others	<u>961,657</u>	<u>648,849</u>
Subtotal	<u>78,042,305</u>	<u>67,347,690</u>
<u>Interest expense</u>		
Deposit	20,903,014	15,271,121
Due to other banks	945,882	788,729
Borrowings and other financing	2,775,468	2,518,763
Hedging derivatives	45,128	58,610
Others	<u>579,450</u>	<u>537,085</u>
Subtotal	<u>25,248,942</u>	<u>19,174,308</u>
Total	\$ <u>52,793,363</u>	<u>48,173,382</u>

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

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ai) Service fee and commission income

	For the years ended December 31	
	2018	2017
<u>Commission income</u>		
Credit card business	\$ 4,477,803	5,129,315
Wealth management business	5,665,489	6,026,841
Corporate business	5,415,981	5,646,830
Banking business	4,905,731	4,790,848
Insurance business	9,217,374	8,600,310
Lottery business	4,585,963	4,897,697
Others	<u>74,487</u>	<u>71,900</u>
Subtotal of commission income	<u>34,342,828</u>	<u>35,163,741</u>
<u>Service fee</u>		
Credit card business	562,839	437,121
Wealth management business	184,470	162,241
Corporate business	276,623	245,786
Banking business	2,045,879	2,026,012
Lottery business	353,181	383,975
Others	<u>6,235</u>	<u>18,575</u>
Subtotal of service fee	<u>3,429,227</u>	<u>3,273,710</u>
Total	<u><u>\$ 30,913,601</u></u>	<u><u>31,890,031</u></u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

	For the years ended December 31	
	2018	2017
<u>Disposal gains (losses)</u>		
Commercial paper	\$ 1,588	4,869
Treasury bills	626	1,612
Government bonds	(514,438)	(455,895)
Corporate bonds	31,103	141,575
Financial debentures	216,803	90,142
Convertible bonds	4,006	15,065
Beneficiary certificates	99,954	(1,533)
Negotiable certificate of deposits	5,358	12,364
Assets-backed commercial paper	(108,222)	(221,567)
Listed and OTC securities	154,507	200,417
Other securities and bonds	43	1,538
Derivative financial instruments	8,870,988	3,740,051
Borrowed securities	554	(12,592)
Fair value hedge adjustment	3,024	-
Subtotal	<u>8,765,894</u>	<u>3,516,046</u>
<u>Valuation gains (losses)</u>		
Commercial paper	21,879	(241)
Government bonds	27,565	520,340
Corporate bonds	(42,003)	8,129
Financial debentures	2,855,124	(1,518,241)
Convertible bonds	(300,084)	45,474
Assets-backed commercial paper	(360,918)	(55,468)
Listed and OTC securities	(875,524)	96,002
Other securities and bonds	(3,546)	(14,923)
Derivative financial instruments	1,013,863	5,103,558
Beneficiary certificates	(145,081)	607
Fair value hedge adjustment	(30,616)	(21,301)
Negotiable certificates of deposit	599	(1,444)
Subtotal	<u>2,161,258</u>	<u>4,162,492</u>
<u>Dividend income</u>	156,082	70,921
<u>Interest income</u>	1,174,715	1,379,977
<u>Interest expense</u>	(1,808,360)	(1,478,048)
Total	<u>\$ 10,449,589</u>	<u>7,651,388</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ak) Employee benefits expenses

	For the years ended December 31	
	2018	2017
Salary expenses	\$ 24,634,513	23,279,945
Insurance expenses	1,795,036	1,762,349
Share based payment transactions	1,107,724	2,335,230
Retirement expenses		
Defined contribution plan	668,590	689,526
Defined benefits plan	306,690	484,260
Other personnel expenses	<u>1,139,991</u>	<u>1,420,218</u>
Total	<u>\$ 29,652,544</u>	<u>29,971,528</u>

As of December 31, 2018 and 2017, numbers of the Bank and subsidiaries' employees were 14,884 and 14,537, respectively.

(al) Depreciation and amortization expenses

	For the years ended December 31	
	2018	2017
Housing	\$ 1,012,489	1,012,472
General equipment	554,898	507,877
Transportation equipment	21,880	28,384
Information equipment	<u>681,445</u>	<u>626,656</u>
Subtotal of depreciation expenses	<u>2,270,712</u>	<u>2,175,389</u>
Amortization of information software	1,224,125	1,095,088
Bond issuance expenses and others	-	1,031
Total	<u>\$ 3,494,837</u>	<u>3,271,508</u>

(am) 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. The estimated compensation of employees for the years ended December 31, 2018 and 2017 were \$16,997 and \$17,083, respectively. The actual compensations of employee of 2017 amounted to \$17,052 with \$31 different from the amount recognized in the annual financial report. The difference was regarded as a change of accounting estimates and would be adjusted in profit or loss in the fiscal year of 2018. Relevant information is available on Market Observation Post System.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(an) Other general and administrative expenses

	For the years ended December 31	
	2018	2017
Site usage and general equipment expenses	\$ 4,893,062	4,921,141
Information equipment expenses	2,112,390	1,885,344
General administration expenses	4,301,953	4,398,525
Marketing and promotion expenses	2,803,682	2,614,246
Other expenses	4,574,964	4,496,819
Business tax	3,071,665	2,995,311
Total	<u><u>\$ 21,757,716</u></u>	<u><u>21,311,386</u></u>

(ao) Financial instruments

(i) Methods and assumptions used by the Bank and 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, financial assets measured at fair value through other comprehensive income, financial assets measured at amortized cost, hedging financial instruments, available-for-sale financial assets (applicable before January 1, 2018), and held to maturity financial assets (applicable before January 1, 2018), 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 (applicable before January 1, 2018) 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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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 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 subsidiaries considering loss given default of the Bank and subsidiaries before being multiplied by exposure at default of the Bank and subsidiaries.

The Bank and subsidiaries adopt IFRS9 (applicable from January 1, 2018) IAS39 (applicable before January 1, 2018) 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 subsidiaries do not measure a financial instrument at fair value.

Financial assets	December 31, 2018	
	Book value	Fair value
Investment in debt instruments at amortized cost	\$ 595,630,666	596,407,103

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

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, 2018			
	Total	Level 1	Level 2	Level 3
<u>Instruments measured at fair value</u>				
<u>Instruments measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments assets and liabilities</u>				
Assets:				
Financial assets measured at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss				
Investment in equity instruments	\$ 3,258,363	3,258,363	-	-
Investment in debt instruments	116,477,513	712,609	115,764,837	67
Others	970,609	325,542	-	645,067
Designated as financial assets measured at fair value through profit or loss	-	-	-	-
Investment in debt instruments	1,130,284	-	-	1,130,284
Financial assets measured at fair value through other comprehensive income				
Investment in equity instruments	5,210,316	2,210,935	6,978	2,992,403
Investment in debt instruments	248,455,811	55,039,671	193,034,667	381,473
Liabilities:				
Designated as financial liabilities measured at fair value through profit or loss	37,930,181	-	-	37,930,181
<u>Derivative financial instruments assets and liabilities</u>				
Assets:				
Financial assets measured at fair value through profit or loss \$	41,623,835	227,119	41,029,984	366,732
Financial assets—hedging	34,212	-	34,212	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	55,343,033	94,534	54,832,536	415,963
Financial liabilities—hedging	184,195	-	184,195	-
<u>Instruments not measured at fair value</u>				
Investment in debt instruments at amortized cost	596,407,103	524,340,047	61,847,578	10,219,478
Investment property	2,905,723	-	-	2,905,723

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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Assets and Liabilities	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<u>Instruments measured at fair value</u>				
<u>Instruments measured at fair value on a recurring basis</u>				
<u>Non-derivative financial instruments assets and liabilities</u>				
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
<u>Derivative financial instruments assets and liabilities</u>				
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	-
<u>Instruments not measured at fair value</u>				
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

- 3) No instrument measured at fair value has been transferred between level 1 and level 2 by the Bank and subsidiaries for the years ended December 31, 2018 and 2017.
- 4) Statements of changes in financial assets which were classified to Level 3 based on fair value measurement.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Items	For the year ended December 31, 2018									
	Beginning balance	The amount recognized in current net income	The amount recognized in other comprehensive income	Purchase or issue	Current increase		Current decrease			Ending balance
					Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets	
Financial assets measured at fair value through profit or loss										
Mandatorily measured at fair value through profit or loss	\$ 339,073	335,106	833,097	113,216	-	-	403,121	186,297	19,208	1,011,866
Designated as financial assets measured at fair value through profit or loss	1,276,517	(3,545)	(73,113)	-	-	-	69,575	-	-	1,130,284
Financial assets measured at fair value through other comprehensive income	3,104,971	-	287,416	-	-	-	11,533	6,978	-	3,373,876
Total	\$ 4,720,561	331,561	1,047,400	113,216	-	-	484,229	193,275	19,208	5,516,026

Items	For the year ended December 31, 2017									
	Beginning balance	The amount recognized in current net income	The amount recognized in other comprehensive income	Purchase or issue	Current increase		Current decrease			Ending balance
					Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial liabilities and out of Level 3 of financial assets	
Financial assets measured at fair value through profit or loss										
Financial assets held for trading	\$ 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

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 between Level 3 and Level 2 was due to a switch of valuation approach.

Unrealized gains (losses) associated with assets as of December 31, 2018 and 2017 which were recognized in current net income shown in the above table were \$683,183 and \$931,747, 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, 2018									
	Beginning balance	The amount recognized in current net income	The amount recognized in other comprehensive income	Purchase or issue	Current increase		Current decrease			Ending balance
					Transfer in of Level 3 and out of other levels	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	Sale, disposal, or settlement	Transfer in of other levels and out of Level 3	Transfer in of Level 3 of financial assets and out of Level 3 of financial liabilities	
Financial liabilities measured at fair value through profit or loss										
Financial liabilities held for trading	\$ 396,598	254,864	-	6,910	-	19,208	76,763	184,854	-	415,963
Financial liabilities designated at fair value through profit or loss	34,090,353	(1,962,751)	(1,112,346)	6,914,925	-	-	-	-	-	37,930,181
Total	\$ 34,486,951	(1,707,887)	(1,112,346)	6,921,835	-	19,208	76,763	184,854	-	38,346,144

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Items	For the year ended December 31, 2017									
	Beginning balance	The amount recognized in current net income	The amount recognized in other comprehensive income	Current increase			Current decrease			Ending balance
				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	
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	<u>\$ 35,092,128</u>	<u>(4,357,083)</u>	<u>1,105,808</u>	<u>5,741,405</u>	<u>-</u>	<u>58,216</u>	<u>3,083,785</u>	<u>69,738</u>	<u>-</u>	<u>34,486,951</u>

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 between Level 3 and Level 2 was due to a switch of valuation approach.

Unrealized gains (losses) associated with liabilities as of December 31, 2018 and 2017 which were recognized in current net income shown in the above table were \$2,475,007 and \$(1,970,974), respectively.

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

Valuation techniques used by the Bank and 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 subsidiaries' major Level 3 financial instruments include:

- 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.
- 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, 2018

Liabilities

Financial liabilities measured at fair value through profit or loss

Designated as financial liabilities measured at fair value through profit or loss \$ 69,561 (69,319)

(Continued)

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	Impacts on the statement of other comprehensive income as fair value changes	
	Favorable changes	Unfavorable changes
December 31, 2017		
<u>Liabilities</u>		
Financial liabilities measured at fair value through profit or loss		
Designated as financial liabilities measured at fair value through profit or loss	\$ <u>55,978</u>	<u>(55,881)</u>

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

Quantitative information about the significant unobservable inputs was as follows:

	December 31, 2018				
	Fair value	Valuation techniques	Key unobservable inputs	Range of inputs	The relation between inputs and fair value
<u>Recurring fair value measurements</u>					
<u>Non-derivative financial instruments assets and liabilities</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Mandatorily measured at fair value through profit or loss	\$ 645,134	Net asset valuation method	Net asset value	Not applicable	The higher net assets, the higher fair value
Designated as financial assets measured at fair value through profit or loss	1,130,284	Discounted cash flow model	Default rate	2.02%~3.08%	The higher default rate, the lower fair value
Financial assets measured at fair value through other comprehensive income					
Investments in equity instruments	2,992,403	Net asset valuation method/ Discounted cash flow model	Net asset value /market risk premium/the value of β	Not applicable	The higher net assets/market risk premium/the value of β , the higher fair value
Investment in debt instruments	381,473	Discounted cash flow model	Interest rate	0.70%	The higher interest rate, the lower fair value
Liabilities:					
Designated as financial liabilities measured at fair value through profit or loss	37,930,181	Interest rate option pricing model	Credit risk parameter	0.53%~1.22%	The higher credit risk parameter, the lower fair value
<u>Derivative financial instruments assets and liabilities</u>					
Assets:					
Financial assets measured at fair value through profit or loss	366,732	Interest rate option pricing model	Interest rate correlation coefficient	77%~99%	The higher correlation coefficient, the lower fair value
Liabilities:					
Financial liabilities measured at fair value through profit or loss	415,963	Interest rate option pricing model	Interest rate correlation coefficient	77%~99%	The higher correlation coefficient, the higher fair value

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December 31, 2017					
	Fair value	Valuation techniques	Key unobservable inputs	Range of inputs	The relation between inputs and fair value
<u>Recurring fair value measurements</u>					
<u>Non-derivative financial instruments assets and liabilities</u>					
Assets:					
Financial assets measured at fair value through profit or loss					
Designated as financial assets measured at fair value through profit or loss	\$ 1,145,566	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
<u>Derivative financial instruments assets and liabilities</u>					
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

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, 2018 and 2017, unrealized gains due to the estimated change of fair value recognized by the Bank and subsidiaries were \$2,999,554 and \$3,543,157, respectively.
- (iv) Financial risk information

The major objective of the risk management of the Bank and 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 including credit risk, market risk, operational risk, liquidity risk and interest risk, the Bank and 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.

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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 responsible for the approval, review, supervision of risk strategies and risk policies, risk management frameworks, and creating the well balanced and independent risk management culture, serves as the primary guidance for all risks, ensure the operation of risk management 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 establishes independent risk management functions and effective risks assessment mechanism in accordance with the policy direction of the board of directors to ensure that the Bank and subsidiaries operates properly. Senior Management establish an appropriate risk authorization system to supervise and ensure the proper operation of the system. 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, developing proper policies and strategies relating to risk identification, measurement, control, and management, and supervising the implementation of system implementation, as well as system operation effectiveness.

1) Market Risk Management

Definition and sources of market risk management

Market risk is the risk that the Bank and 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES

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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 subsidiaries. The Policy is developed to establish definite market risk management mechanisms of financial transaction, to facilitate market risk communication within the Bank and 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 subsidiaries to ensure that the Bank and 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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 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 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 subsidiaries' trading portfolios.

Unit : In Thousands of New Taiwan Dollars

Yield curve parallel shift of +0.01%	Currency	December 31, 2018	December 31, 2017
	CNY	\$ (766)	(676)
	EUR	(7)	6
	HKD	(160)	139
	JPY	(14)	(21)
	NTD	1,223	414
	USD	(1,269)	(3,345)
	Others	(188)	(378)

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 subsidiaries' trading portfolios include spots, forwards, and currency options.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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2. Management Procedure

In order to effectively control the foreign exchange risk for the trading portfolios, the Bank and 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 subsidiaries' trading portfolios.

Unit : In Thousands of New Taiwan Dollars

Underlying currency upward movement by 1%	Currency	December 31, 2018	December 31, 2017
	AUD	\$ 124	(527)
	CNY	15,494	4,434
	EUR	2,718	2,670
	GBP	(1,516)	85
	HKD	(4,025)	(10,605)
	JPY	(505)	5,562
	KRW	(86)	32
	USD	(22,007)	(23,920)
	Others	(845)	6,643

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 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 subsidiaries' trading portfolios include derivatives in gold and crude oil.

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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 subsidiaries' trading portfolios include credit default swaps.

Equity factor sensitivity (Equity delta)	Country/ Commodity	December 31, 2018	December 31, 2017
Equity Factor Sensitivity			
Stock price or index upward movement by 1%	Taiwan	\$ 411	9,824
	USA	(957)	-
	Japan	511	580
	Others	(53)	478
Commodity Factor Sensitivity			
Commodity price upward movement by 1%	Gold	(53)	44
Credit Spread Factor Sensitivity			
Credit spread upward shift by 0.01%		(139)	(32)

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 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 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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3. Management Procedures and Risk Measurement of Non-Trading Purpose Interest Rate Risk

In order to earn stabilized profits, the Bank and 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 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 Δ 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 Δ 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 subsidiaries risk appetite.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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4. Risk Mitigation and Hedge of Non-Trading Purpose Interest Rate Risk

The Bank and 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 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 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 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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3. Management Procedure and Risk Measurement of Non-Trading Purpose Foreign Exchange Rate Risk

The Bank and 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 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 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 at the level authority 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 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 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 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 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.

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4. Risk Mitigation and Hedge of Non-Trading Purpose Equity Risk

The Bank and 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 subsidiaries is summarized as below:

December 31, 2018			
Risk Items	Movement	Amount	
		Profit and Loss	Equity
Interest Rate Risk	Interest rate curve shift up 1bp	96,578	(42,127)
	Interest rate curve shift down 1bp	(96,578)	42,127
Foreign Exchange Rate Risk	Foreign currency appreciate 1% against NTD	296	-
	Foreign currency depreciate 1% against NTD	(296)	-
Equity Price Risk	Equity price appreciate 1%	26,699	22,109
	Equity price depreciate 1%	(26,699)	(22,109)

December 31, 2017			
Risk Items	Movement	Amount	
		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)

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

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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 subsidiaries were as below:

		December 31, 2018		
		Foreign currency	Spot rate	NTD amount
<u>Financial assets</u>				
<u>Monetary items</u>				
USD	\$	28,036,761	30.7330	861,653,776
JPY		2,553,121,947	0.2783	710,533,838
CNY		29,048,927	4.4854	130,296,057
HKD		12,925,527	3.9239	50,718,475
SGD		578,081	22.4887	13,000,290
<u>Non-monetary items</u>				
THB		17,406,613	0.9491	16,520,616
JPY		6,955,473	0.2783	1,935,708
USD		32,873	30.7330	1,010,286
CNY		196,844	4.4854	882,925
PHP		11,941	0.5844	6,978
<u>Financial liabilities</u>				
<u>Monetary items</u>				
USD	\$	35,227,243	30.7330	1,082,638,859
JPY		2,518,078,691	0.2783	700,781,300
HKD		7,153,779	3.9239	28,070,713
CNY		26,043,392	4.4854	116,815,030
SGD		160,265	22.4887	3,604,152

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		December 31, 2017		
		Foreign currency	Spot rate	NTD amount
Financial assets				
<u>Monetary items</u>				
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
<u>Non-monetary items</u>				
THB		17,118,711	0.9150	15,663,621
USD		33,228	29.8480	991,786
JPY		24,943,526	0.2649	6,607,540
Financial liabilities				
<u>Monetary items</u>				
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

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, 2018

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	\$ 1,612,249,160	177,418,209	72,985,844	122,464,823	1,985,118,036
Interest rate sensitive liabilities	525,842,160	1,009,011,367	128,570,396	61,684,519	1,725,108,442
Interest rate sensitivity gap	1,086,407,000	(831,593,158)	(55,584,552)	60,780,304	260,009,594
Net worth					295,738,873
Ratio of interest rate sensitive assets to liabilities (%)					115.07
Ratio of interest rate sensitivity gap to net worth (%)					87.92

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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

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, 2018

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	\$ 12,784,448	569,636	175,761	3,519,510	17,049,355
Interest rate sensitive liabilities	9,504,382	11,086,921	1,543,267	1,517,407	23,651,977
Interest rate sensitivity gap	3,280,066	(10,517,285)	(1,367,506)	2,002,103	(6,602,622)
Net worth					9,622,844
Ratio of interest rate sensitive assets to liabilities (%)					72.08
Ratio of interest rate sensitivity gap to net worth (%)					(68.61)

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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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)

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 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 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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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. Defining credit risk factors for 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 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. Besides credit rating, credit risk management policy and experienced (senior) credit officers' judgment supplement the credit application on credit approval, facility management and performance analysis, etc.

3. Risk Monitoring

To ensure credit risk is under control, the Bank has established credit risk limit management mechanism, and has set up the information management system to monitor the credit risk portfolio and risk concentration situation. The Bank and subsidiaries have developed comprehensive credit policies and procedures covering a credit cycle for facilitating the control of credit risk by responsible units, such as procedures about credit extension and credit evaluation, interim review mechanism, guideline for early warning and watch list accounts, guideline for collateral appraisal and management, rules of treasury credit risk mitigation, procedure for problem assets 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 management reports and submits these reports to senior management. The reports disclose the Bank and subsidiaries' credit risk profile from various dimensions, such as asset quality, portfolio concentration, industry sector exposure, scorecard model validation result, etc.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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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 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 subsidiaries in their stable growth of long-term operation.

a. Probability of default

The Bank and 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 subsidiaries. The Bank and subsidiaries also develop a master scale to segment obligor's default risk; each segment of the master scale is associated with a predefined forward-looking probability of default. As for retail banking group, we also developed the risk rating with predefined one-year forward-looking probability of default, which is developed according customer credit rating model.

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 rating with long-run default-weighted average LGD, which is developed according to the characteristic of products and collaterals.

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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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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 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, obligors' business prospect, future cash flow, and repayment ability and willingness are the main factors for identifying the repayment sources. However, for the creditor's sake, the Bank, under government regulations, may ask the obligor or a third party to deliver pledge of real estate, chattel, or securities as collateral which can be disposed for recovering the Bank's claim on exposure if the obligor defaults.

In order to maintain the good standing value of collateral, the Bank and 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 subsidiaries set the type of collateral that can be pledged and consider the historical recovery experience to draw up the highest loan to value. To verify the fairness of the value of the collateral, collaterals are appraised not only through valuation reports issued by professional appraisers but also market price and the actual registered price. With the periodic reappraisal, the adequacy of the collateral with high fluctuations can be timely monitored.

ii) Pre-settlement risk mitigation

For pre-settlement risk, the Bank and 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 monitoring mechanisms

For post lending monitoring through interim review mechanism to control the change of customer's risk, the review frequency and content depend on the risk grade of customers. The Bank and subsidiaries stipulated Guideline for Interim Reviews based on the principle about interim review issued by The Bankers Association of The Republic of China. Interim review items cover change of borrower's business, inspection of credit standing, change of business operation and financial condition, change of the collateral, 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 business and credit status, the credit grade will be re-rated and facilities might be adjusted depending on the situation.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 subsidiaries, to assist the Bank and subsidiaries in their stable growth of long-term operation.

v) External guarantee

In order to enhance the credit protection 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 by various risk components on credit risk exposure via different relevant credit risk management reports, the Bank and subsidiaries have risk limit control mechanism, effective after approval by the board of directors, at the level of asset portfolio and the level of group, considering that changes in external macro environment are likely to introduce concentration risk from customers with the same characteristics.

Dimensions of limit ceiling monitoring include country risk, high risk grade obligors, product types, industry, treasury limit, project limit, collateral, in the same affiliate and 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 (ao) 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 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 subsidiaries.

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Notes to the Consolidated Financial Statements

i) By Industry

December 31, 2018									
	Individual Clients	Service	Public Sector	High Tech	Real Estate	Manufacturing	Financial Institution	Others	Total
On balance sheet									
Receivables—Credit card	\$ 84,265,074	-	-	-	-	-	-	-	84,265,074
Receivables—Factoring	-	1,550,197	-	13,011,962	14,939	3,420,149	3,581,085	-	21,578,332
Loans									
-Consumer loans	754,925,190	-	-	-	-	-	-	-	754,925,190
-Corporate loans	70,961,362	77,866,083	146,710,776	62,661,967	76,824,386	93,716,974	8,660,504	252,509	537,654,561
-Micro-business loans	3,486,320	3,756,829	-	667,444	800,361	1,754,491	101,309	82,559	10,649,313
-Foreign currency loans	267,639,737	262,698,521	19,054,930	49,654,585	141,352,072	178,006,402	104,480,432	9,233,387	1,032,120,066
-Non-accrual loans	3,860,354	3,365,753	-	467,169	98,255	1,199,935	107,409	423,866	9,522,741
-Adjustment of discount and premium	(145,069)	(513,725)	-	(57,554)	(206,448)	(99,951)	(78,210)	(88,360)	(1,189,317)
Other financial assets	99,313	-	-	-	-	6,045	-	41,474	146,832
Total	<u>\$ 1,185,092,281</u>	<u>348,723,658</u>	<u>165,765,706</u>	<u>126,405,573</u>	<u>218,883,565</u>	<u>278,004,045</u>	<u>116,852,529</u>	<u>9,945,435</u>	<u>2,449,672,792</u>
Off balance sheet									
Guarantee and commitment	<u>\$ 585,780,556</u>	<u>142,676,825</u>	<u>67,375,559</u>	<u>181,032,232</u>	<u>76,534,816</u>	<u>302,241,300</u>	<u>123,487,683</u>	<u>2,115,130</u>	<u>1,481,244,101</u>

December 31, 2018					
	Public Sector	Corporate	Financial Institution	Individual Clients	Total
Financial assets measured at fair value through other comprehensive income—investment in debt instruments	\$ 66,274,704	27,377,145	141,241,362	13,562,600	248,455,811
Financial assets—hedging	26,382	-	7,830	-	34,212
Investment in debt instruments at amortized cost	522,490,111	52,616,857	20,567,033	-	595,674,001
Total	<u>\$ 588,791,197</u>	<u>79,994,002</u>	<u>161,816,225</u>	<u>13,562,600</u>	<u>844,164,024</u>

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	<u>\$ 1,077,469,210</u>	<u>315,172,914</u>	<u>171,953,724</u>	<u>118,875,913</u>	<u>209,174,783</u>	<u>246,816,026</u>	<u>110,236,987</u>	<u>9,079,262</u>	<u>2,258,778,819</u>

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	<u>\$ 674,724,137</u>	<u>58,876,151</u>	<u>119,465,013</u>	<u>8,769,526</u>	<u>861,834,827</u>

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ii) By Area

	December 31, 2018				
	Taiwan	North America	Asia (excluding Taiwan)	Others	Total
<u>On balance sheet</u>					
Financial assets measured at fair value through other comprehensive income-investment in debt instruments	\$ 33,588,390	45,563,954	142,540,144	26,763,323	248,455,811
Financial assets—hedging	34,212	-	-	-	34,212
Receivables—credit card	84,265,074	-	-	-	84,265,074
Receivables—factoring	7,458,824	1,027,848	10,608,317	2,483,343	21,578,332
<u>Loans</u>					
Consumer finance					
— Mortgage loans	639,376,024	-	-	-	639,376,024
— Automobile loans	359	-	-	-	359
— Consumer loans	115,548,807	-	-	-	115,548,807
Corporate finance					
— Corporate loans	537,365,830	157,000	97,509	34,222	537,654,561
— Micro business loans	10,640,186	-	9,127	-	10,649,313
Foreign currency loans	32,406,569	129,456,618	796,016,720	74,240,159	1,032,120,066
Non-accrual loans	1,636,363	186,825	7,670,262	29,291	9,522,741
Adjustment of discount and premium	(340,814)	10,836	(789,147)	(70,192)	(1,189,317)
Investment in debt instruments at amortized cost	468,623,104	60,342,840	54,387,824	12,320,233	595,674,001
Other financial assets	99,313	-	47,519	-	146,832
Total	\$ 1,930,702,241	236,745,921	1,010,588,275	115,800,379	3,293,836,816
<u>Off balance sheet</u>					
Guarantee and commitment	\$ 1,095,780,286	23,721,683	328,754,534	32,987,598	1,481,244,101

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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	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	<u>\$ 1,918,736,541</u>	<u>198,980,112</u>	<u>941,230,312</u>	<u>61,666,681</u>	<u>3,120,613,646</u>

- g) Credit risk analysis of financial assets, loan commitments and financial guarantee contracts of the Bank and subsidiaries

The measurement of expected credit losses of the Bank and subsidiaries is based on internal rating system and the estimation of three major credit risk components including Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), which are used to measure the 12-month and lifetime expected credit losses.

For Probability of Default, the Bank and subsidiaries' institutional banking group develop the risk segmentation according to obligor's country, internal rating, status of credit risk, and industry. As for retail banking group, the risk segmentation is developed according to obligor's risk characteristics, credit score, and delinquency status.

For Loss Given Default, the Bank and subsidiaries' institutional banking group develop the risk segmentation depending on whether the asset is partially secured, fully secured, or other else. As for retail banking group, risk factors are derived from the product characteristics, such as Loan-to-value, exposure, and collateral type.

Current exposure method or expected exposure approach is adopted for the estimation of exposure at default. The on-balance sheet exposure at default is measured by gross carrying amount (including accrued interest and accrued fees); the off-balance sheet exposure at default is estimated by carrying amount multiplied by credit conversion factor (CCF) under the Basel Accords - the standardized approach for credit risk.

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CTBC BANK CO., LTD. AND SUBSIDIARIES

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The criteria for identifying the significant increases in credit risk are set as below:

- i) Delinquent asset with interest or principal payments over 30 days; delinquent asset with interest or principal payments over 45 days for recourse factoring exposure; delinquent asset with interest or principal payments over 60 days for non-recourse factoring exposure (considering the credit risk characteristics and the amount of time required for reconciliation process, special overdue days criteria have been set to both Recourse and Non-recourse Factoring exposure).
- ii) Obligor's risk rating or collateral value at the reporting date deteriorates significantly compared to that at the initial recognition date.
- iii) Obligor placed in early warning list due to the mechanism of early warning or the probability of default of obligor similar with delinquent asset at reporting date.

The objective evidence of impairment generally includes the items as below:

- i) Significant financial difficulty of the issuer or obligor;
- ii) Adverse changes in the repayment status of borrower;
- iii) A breach of contract, such as a default or past due event;
- iv) The lender, for economic or contractual reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- v) Decease, dissolution, or it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- vi) The disappearance of an active market for that financial asset because of financial difficulties;
- vii) Purchased or originated credit-impaired financial asset at a significant discount to the contractual par amount;
- viii) Counterparty defaulting on agreement of other financial instruments (e.g. transactions settlement failure, a bank decide to execute early termination of transactions, or loans originated from derivatives settlement failure).

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

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Estimation of expected credit losses that incorporates forward-looking information:

By analyzing the historically macroeconomic data, the relevant macroeconomic factors for credit risk of each portfolio (e.g. economic growth rate, consumer price index, interest rate or unemployment rate) are recognized, which are further adopted based on the correlation of the Bank's loss experience and consistency of forecast. The risk signals then are developed based on the chosen macroeconomic factors and apply the forward-looking adjustment by incorporating the internal and external loss experiences. Besides, to derive and reflect macro light forecasts for the next three years in the estimation of impairment allowance, the Bank considers and gets the average of macroeconomics forecasting derived from the chosen Business, Public Agencies, and Academic Institutions.

There is no significant change on the methodology or assumptions for assessment of expected credit losses at the reporting date.

Some financial assets held by the Bank and 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, financial assets measured at fair value through other comprehensive income, 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. Some products, such as certificate of deposit loan, due from banks, and call loans to banks, are treated as products with low credit risk in consideration of their characteristics and zero historically impaired experience. Below tables provide the expected credit risk analysis for the rest of financial assets.

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Item	December 31, 2018											
	Stage 1				Stage 2			Stage 3				
	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)	
On balance sheet												
Financial assets measured at fair value through other comprehensive income-investment in debt instruments	\$ 220,693,420	17,786,000	893,906	239,373,326	9,082,485	-	-	9,082,485	-	-	69,280	248,386,531
Derivative financial instrument – hedging	34,212	-	-	34,212	-	-	-	-	-	-	-	34,212
Receivables – credit card	69,578,868	8,494,511	2,815,234	80,888,613	1,259	5,191	227,258	233,708	-	3,142,753	1,100,231	83,164,843
Receivables – factoring	6,551,377	10,618,775	3,739,337	20,909,489	-	513	-	513	668,330	-	575,919	21,002,413
Loans												
Consumer finance	627,702,335	5,992,843	1,474,528	635,169,706	66,821	23,288	165,107	255,216	-	3,951,102	340,747	639,035,277
– Mortgage loans	-	-	-	-	-	-	-	-	-	359	15	344
– Automobile loans	-	-	-	-	-	-	-	-	-	-	-	-
– Consumer loans	79,491,634	20,870,538	6,589,409	106,951,581	6,408	28,550	696,886	731,844	-	7,865,382	2,595,551	112,953,256
Corporate finance	261,847,853	226,620,099	45,447,507	533,915,459	-	428,680	1,024,205	1,452,885	2,286,217	-	806,058	536,848,503
– Corporate loans	718,568	7,924,699	1,554,815	10,198,082	-	130,114	224,962	355,076	50,617	45,538	43,246	10,606,067
– Micro business loans	402,856,475	440,030,769	171,966,155	1,014,853,399	60,800	2,917,955	7,778,270	10,757,025	6,060,823	448,819	5,556,526	1,026,563,540
Foreign currency loans	-	-	-	-	-	-	111,118	111,118	5,628,363	3,783,260	4,721,567	4,801,174
Non-accrual loans	-	-	-	-	-	(11,149)	(6,555)	(17,362)	(45)	(1,437)	(839)	(1,188,478)
Adjustment of discount and premium	(335,645)	(640,788)	(194,040)	(1,170,473)	342	-	-	-	-	-	43,335	595,630,666
Investment in debt instruments at amortized cost	556,235,856	21,227,124	16,877,454	594,340,434	1,333,567	-	-	1,333,567	-	-	-	-
Other financial assets	41,474	-	-	41,474	-	-	-	-	6,045	99,313	68,883	77,949
Total	\$ 2,225,416,427	758,924,570	251,164,305	3,235,505,302	10,551,682	3,523,142	10,221,251	24,296,075	14,700,350	19,335,089	15,920,519	3,277,916,297
Off-balance sheet												
Guarantee and commitment	\$ 960,359,302	428,048,080	87,141,440	1,475,548,822	1,856	248,788	4,752,850	5,003,494	52,439	639,346	596,732	1,480,647,369

Note 1: The balances of impairment allowance, as shown above, are in compliance with the IFRSs accepted by FSC.

Note 2: Stage 1 is the loss allowance measured at 12-month expected credit loss of financial instrument.

Stage 2 is the loss allowance measured at lifetime ECL measurement and the credit risk of a financial asset at the reporting date has increased significantly.

Stage 3 is the loss allowance measured at lifetime ECL measurement and the credit losses has impaired of a financial asset at the reporting date.

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Item	Neither past due nor impaired				December 31, 2017				Total(A)+(B)+(C) +(D)-(E)	
	Past due not impaired				Subtotal(A)	Past due not impaired				
	Investment grade	Sub-investment grade	High Risk grade	Investment grade		Sub-investment grade	High Risk grade	Subtotal(B)		
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	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	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	368,239	567,193,838
— Automobile loans	-	-	-	-	-	-	-	-	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	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	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	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	4,475,943	965,064,131
Non-acrual loans	-	-	-	-	-	-	957	957	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)	(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	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	21,385,956	3,105,909,035

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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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	<u>\$ 10,314,362</u>	<u>1,435,820</u>	<u>426,963</u>	<u>23,459</u>	<u>12,200,604</u>

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	<u>\$ 14,127,947</u>	<u>21,385,956</u>	<u>4,209,087</u>	<u>4,271,759</u>	<u>27,033,057</u>

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

j) Foreclosed properties

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

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

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

Unit : In Thousands of New Taiwan Dollars , %

Month/ Year			December 31, 2018				
			Non performing loans	Total loans	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
Categories/ Items							
Corporate finance	Secured		2,815,475	447,868,905	0.63 %	16,642,662	277.46 %
	Unsecured (Note 10)		3,182,744	870,033,709	0.37 %		
Consumer finance	Residential mortgages		1,812,202	811,901,377	0.22 %	7,527,006	415.35 %
	Cash cards		38,562	2,165,549	1.78 %	87,713	227.46 %
	Micro credit loans	Original	1,863,093	112,734,257	1.65 %	4,734,402	254.12 %
		Purchase	-	121	- %	1	- %
	Others	Secured	150,538	94,440,683	0.16 %	999,845	243.12 %
		Unsecured	260,721	5,727,270	4.55 %		
Total loan business			10,123,335	2,344,871,871	0.43 %	29,991,629	296.26 %
			Overdue receivables	Balance of receivables	Delinquency ratio	Allowance for credit losses	Coverage ratio
Credit cards business			95,546	84,364,387	0.11 %	1,166,342	1,220.71 %
Without recourse factoring			-	21,578,332	- %	782,315	- %

Month/ Year			December 31, 2017				
Categories/ Items			Non performing loans	Total loans	Non-performing loans ratio	Allowance for credit losses	Coverage ratio
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	- %

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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- 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: $\text{Non-performing loans ratio} = \text{Non-performing loans} \div \text{total loans}$; $\text{Credit card delinquency ratio} = \text{Overdue receivables} \div \text{balance of receivables}$.
- Note 3: $\text{Coverage ratio for loans} = \text{allowance for credit losses} \div \text{non-performing loans}$; $\text{Coverage ratio for credit card} = \text{allowance for credit losses} \div \text{overdue receivables}$.
- 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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Unit : In Thousands of New Taiwan Dollars

	December 31, 2018		December 31, 2017	
	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)	47,964	147,558	63,640	124,658
Pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2)	687,286	65,706	719,490	69,932
Total	735,250	213,264	783,130	194,590

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, 2018			
Ranking	Enterprise group by industry sector	Credit amount	Credit amount/ stockholders’ equity (%)
1	A group. Cement manufacturing	18,089,161	6.12 %
2	B group. Liquid crystal panel and components manufacturing	16,306,995	5.51 %
3	C group. Iron and steel smelting	9,623,607	3.25 %
4	D group. Other computer accessories manufacturing	7,127,320	2.41 %
5	E group. Consulting group	6,923,881	2.34 %
6	F group. Cement manufacturing	6,628,455	2.24 %
7	G group. Retailing sale of other food, beverages and tobacco	6,489,646	2.19 %
8	H group. Wires and cables manufacturing	6,300,786	2.13 %
9	I group. Cable telecommunications	6,025,850	2.04 %
10	J group. Metal Die Manufacturing	6,000,000	2.03 %

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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	C group. Other unclassified financial service	9,497,867	3.40 %
3	B group. Iron and steel smelting	9,271,347	3.32 %
4	K group. Liquid crystal panel and components manufacturing	6,917,943	2.47 %
5	L group. Printed circuit manufacturing	6,645,032	2.38 %
6	G group. Cable telecommunications	6,457,217	2.31 %
7	M group. Consulting group	5,934,728	2.12 %
8	N group. Other unclassified financial service	5,786,462	2.07 %
9	O group. Wires and cables manufacturing	5,572,616	1.99 %
10	P group. Cement manufacturing	5,283,902	1.89 %

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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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3) Liquidity Risk Management Mechanism

a) Definition and sources of liquidity risk

Liquidity risk of the Bank and 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 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 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 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 subsidiaries set various limits for managing liquidity risk, including the mismatch of cash inflow and outflow and funding concentration to assure the Bank and subsidiaries maintain adequate liquidity.

Funding Management Unit is entrusted the responsibility to centrally manage the liquidity risk of the Bank and 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- 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.

The scope and characteristics of risk measurements and reporting system 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 Bank's management level to discuss the action plan.
- d) Risk mitigation and hedge of liquidity risk

Through liquidity risk management framework, the Bank and subsidiaries maintain sufficient liquidity status and robust funding structure. By using rigorous liquidity risk measurement and monitoring, the Bank and 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 and the primary business unit which caused the change of the risks, then the unit should report the action plans and follow-ups to corresponding authority for approval. The related unit should keep tracking improved performance and adjust the strategy timely to ensure that the risk could be decreased effectively.

In addition, the Bank and 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 subsidiaries.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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, 2018					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Deposits from Central Bank and other banks	\$ 51,673,603	17,306,366	3,186,498	2,332,225	-	74,498,692
Due to Central Bank and other banks	1,733,628	664,126	864,956	229,169	118,304	3,610,183
Non-derivative financial liabilities measured at fair value through profit or loss	-	-	-	-	37,930,181	37,930,181
Securities sold under repurchase agreements	54,744,581	6,213,045	-	-	-	60,957,626
Payables	47,298,536	9,232,072	9,540,424	14,314,512	88,582,966	168,968,510
Current income tax liabilities	12,239	-	2,273,465	10,591	-	2,296,295
Deposits and remittances	1,944,437,147	382,013,004	257,772,622	418,943,178	153,601,024	3,156,766,975
Financial debentures	-	-	-	-	59,000,000	59,000,000
Other financial liabilities	25,915,313	6,920,325	14,311,465	28,224,480	44,539,828	119,911,411
	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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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 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, 2018					
		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	\$	3,075,313	-	-	-	-	3,075,313
— Interest rate derivatives		29,809,444	-	-	-	-	29,809,444
— Other derivatives		155,233	-	-	-	-	155,233
Derivative financial liabilities—hedging							
— Foreign exchange derivatives		1,374,721	1,832,961	-	-	-	3,207,682
Total	\$	<u>34,414,711</u>	<u>1,832,961</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,247,672</u>

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		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

ii) Gross settled derivatives

Gross settled derivatives engaged by the Bank and 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, 2018					
		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	\$	1,618,311,548	640,529,076	451,108,389	419,783,745	37,084,691	3,166,817,449
— Cash inflow		1,620,510,236	642,679,237	456,031,487	423,898,563	34,977,046	3,178,096,569
Derivative financial liabilities—hedging							
— Foreign exchange derivatives							
— Cash outflow		31,984,532	-	-	-	-	31,984,532
— Cash inflow		31,842,019	-	-	-	-	31,842,019
Cash outflow subtotal		1,650,296,080	640,529,076	451,108,389	419,783,745	37,084,691	3,198,801,981
Cash inflow subtotal		1,652,352,255	642,679,237	456,031,487	423,898,563	34,977,046	3,209,938,588
Net cash flow	\$	2,056,175	2,150,161	4,923,098	4,114,818	(2,107,645)	11,136,607

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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		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

g) Maturity analysis of off-balance-sheet items

Table below shows the maturity analysis of off-balance-sheet items for the Bank and 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, 2018					
	0~30 days	31~90 days	91~180 days	181days~1year	Over 1 year	Total
Financial guarantee contracts	\$ 60,516,495	-	-	-	-	60,516,495
Unused amount of irrevocable loan commitments	113,118,176	-	-	-	-	113,118,176
Unused amount of irrevocable letter of credit	24,896,128	-	-	-	-	24,896,128
Unused amount of irrevocable credit card commitments	537,641,080	-	-	-	-	537,641,080
Total	\$ 736,171,879	-	-	-	-	736,171,879

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
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	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	<u>\$ 710,206,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>710,206,665</u>

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, 2018

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	\$ 2,557,873	248,314	296,793	307,580	255,910	210,780	1,238,496
Major cash outflow at maturity	2,763,035	180,384	221,406	393,227	376,084	560,924	1,031,010
Gap	(205,162)	67,930	75,387	(85,647)	(120,174)	(350,144)	207,486

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

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

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

December 31, 2018

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	\$ 80,994,096	36,784,299	16,831,419	9,139,587	8,206,772	10,032,019
Major cash outflow at maturity	90,740,142	42,156,848	17,389,195	10,360,006	11,116,285	9,717,808
Gap	(9,746,046)	(5,372,549)	(557,776)	(1,220,419)	(2,909,513)	314,211

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)

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, 2018

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	\$ 43,234,202	21,069,414	8,593,275	3,675,000	5,477,297	4,419,216
Major cash outflow at maturity	48,283,524	28,958,046	6,669,412	3,792,088	5,994,029	2,869,949
Gap	(5,049,322)	(7,888,632)	1,923,863	(117,088)	(516,732)	1,549,267

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)

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Transferred financial assets that are not fully derecognized

The transactions, relating to transferred financial assets not qualifying for full derecognition, the Bank and 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 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, 2018					
<u>Types of financial assets</u>	<u>Carrying amount of transferred financial assets</u>	<u>Carrying amount of associated financial liabilities</u>	<u>Fair value of transferred financial assets</u>	<u>Fair value of associated financial liabilities</u>	<u>Net fair value</u>
Financial assets measured at fair value through profit or loss					
Repurchase agreement	\$ 10,419,896	10,246,333	10,419,896	10,246,333	173,563
Financial assets measured at fair value through other comprehensive income					
Repurchase agreement	25,263,072	23,881,233	25,263,072	23,881,233	1,381,839
Securities lending segment	14,733,891	19,337,702	14,733,891	19,337,702	(4,603,811)
Investment in debt instruments at amortized cost					
Repurchase agreement	27,878,851	26,830,060	27,550,994	26,830,060	720,934
December 31, 2017					
<u>Types of financial assets</u>	<u>Carrying amount of transferred financial assets</u>	<u>Carrying amount of associated financial liabilities</u>	<u>Fair value of transferred financial assets</u>	<u>Fair value of associated financial liabilities</u>	<u>Net fair value</u>
Financial assets measured at fair value through profit or loss					
Repurchase agreement	\$ 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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Offsetting financial assets and financial liabilities

The Bank and 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, 2018						
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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial assets	\$ 41,657,037	-	41,657,037	26,853,453	3,774,671	11,028,913

December 31, 2018						
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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
Derivative financial liabilities	\$ 55,527,228	-	55,527,228	26,544,677	4,990,997	23,991,554
Securities lending segment	19,337,702	-	19,337,702	14,733,891	-	4,603,811
Total	\$ 74,864,930	-	74,864,930	41,278,568	4,990,997	28,595,365

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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
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)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
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

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

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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".

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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 investments in equity and debt instruments designated at fair value through other comprehensive income, 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 bank's possible loss resulting from borrowers, guarantors or counterparties' failure to repay or meet contractual obligations. The scope of credit risk includes the items on and off balance sheet default risk as well as counterparty credit risk. The capital requirement calculation includes standardized approach and internal ratings based (IRB) approach, while the Bank adopts standardized approach for regulatory capital.
2. Market risk is the negative impact on a bank's overall revenue, capital, value or operating capacity due to changes in the level, volatility or correlation of market risk factors, such as interest rates (including credit spread), foreign exchange rate, equity prices, and commodities prices. The market liquidity of these types of instrument is also covered. Market risk capital 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.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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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 the Bank and subsidiaries

Analyzed items			Period	December 31, 2018	December 31, 2017
Regulatory capital	Common equity			272,761,798	259,049,577
	Other tier 1 capital			26,926,331	27,300,493
	Tier 2 capital			31,690,092	31,032,043
	Regulatory capital			331,378,221	317,382,113
Amount of Risk weighted assets	Credit risk	Standardized approach (SA)		2,011,804,287	1,860,029,895
		Internal ratings based (IRB) approach		-	-
		Assets securitization		36,343,129	42,196,481
	Operational risk	Basic indicator approach (BIA)		-	-
		Standardized approach (SA)/Alternative Standardized approaches (ASA)		151,391,754	147,601,288
		Advanced measurement approaches (AMA)		-	-
	Market risk	Standardized approach (SA)		147,693,705	143,127,258
		Internal model approach		-	-
	Total amount of risk weighted assets				2,347,232,875
Capital adequacy ratio				14.12 %	14.47 %
Ratio of common equity to risk weighted assets (%)				11.62 %	11.81 %
Ratio of tier 1 capital to risk weighted assets (%)				12.77 %	13.06 %
Leverage ratio				7.19 %	7.16 %

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(ap) Structured entities that are not included in consolidated financial reports

- (i) The table below presents the types of structured entities that the Bank and 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 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, 2018	December 31, 2017
Asset backed securities	\$166,848,260,948	159,720,905,853
Private fund	33,501,958	555,144,783

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

	December 31, 2018	December 31, 2017
Assets held by the Bank and subsidiaries		
Financial assets measured at fair value through other comprehensive income	\$ 29,991,382	-
Financial assets measured at fair value through profit or loss	645,067	-
Available-for-sale financial assets — net	-	31,010,012
Loans — net	900,940	1,098,087
Held-to-maturity financial assets — net	-	480,916
Investment in debt instruments at amortized cost	613,886	-
Other assets — net	-	580,509
Total assets held by the Bank and subsidiaries	\$ 32,151,275	33,169,524
	December 31, 2018	December 31, 2017
Liabilities held by the Bank and subsidiaries		
Deposits and remittances	\$ -	4,524

The maximum amount of risk exposure the Bank and 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 subsidiaries.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (iv) As of December 31, 2018 and 2017, the Bank and 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

<u>Name of related party</u>	<u>Relationship with the Bank</u>
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	"
Xiamen Jinmeixin Customer Finance Co., Ltd.	"
Taiwan Institute of Economic Research	The Bank contributed over 1/3 of its total funds.
CTBC Charity Foundation	"
CTBC Culture Foundation	"
CTBC Business School	The company which is controlled by the same company as the Bank contributed over 1/3 of its total funds.
Kinpo Electronics, Inc.	The Chairman of the Bank's subsidiary is its director.
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 Asia Limited	"
CTBC Securities Venture Capital 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.	"
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.	"
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.
Chung Yuan Investment Co., Ltd.	The director of the parent company.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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<u>Name of related party</u>	<u>Relationship with the Bank</u>
Yi Chuan Investment Co., Ltd.	The director of the parent company.
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.	"
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	"
Kainan High School of Commerce and Industry	The Chairman of the parent company of the Bank is its body corporate representative.
Heng Da Culture Foundation	The director of the parent company of the Bank is its body corporate representative.
Asian Bankers Association	The General Manager 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.
CTBC Technology Building Management authority	"
Pei Sheng Culture Foundation	"
CTBC Financial Park Management authority	"
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	"
Brothers Entertaining Co., Ltd.	"
Jing Kwan Investment Co., Ltd.	The Chairman of the company which is controlled by the same company as the Bank is its Chairman.
Shin Wen Investment Co., Ltd.	"
Taiwan Relo Club, Limited	The director of the company which is controlled by the same company as the Bank is its Chairman.
Huaku Development Co., Ltd.	The company's General Manager is the second-degree relative of the director which is controlled by the same company as 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.
Fina Finance & Trading Co., Ltd.	"
Sungyong Investment Co., Ltd.	"
Sungbo Co., Ltd.	"

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

<u>Name of related party</u>	<u>Relationship with the Bank</u>
Jungguan Investment Co., Ltd.	Related party in substance.
Kuan Ho Development Co., Ltd.	"
CTC Group Inc.	"
APEX Credit Solutions Inc.	"
Yi Hua Investment Co., Ltd.	"
Yi Kao Investment Co., Ltd.	"
Chinatrust Real Estate Co. Ltd.	"
Chia Shih Investment Co., Ltd.	"
Kae Lee Investment Co., Ltd.	"
Chailease Holding Company Limited (Cayman)	"
Ronghua Investment Co., Ltd.	"
Chung-Chie Property Management Co., Ltd.	"
Global Hospitality Group Inc.	"
Chailease Auto Rental Co., Ltd.	"
Shin Ing Technology Co., Ltd.	"
Chinese Taipei Baseball Association	"
Chung Cheng Investments and Development 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, 2018 and 2017, the rental revenue that the Bank received from related parties for the rental of buildings, parking spaces, and safe deposit boxes amounted to \$271,898 and \$270,509, respectively, constituting 53.00% and 53.75%, respectively, of total rental income.

As of December 31, 2018 and 2017, deposits for renting safe boxes to related parties amounted to \$7 and \$5, the rents received in advance from related parties amounted to \$11,534 and \$7,665, respectively. The guarantee deposit for the use of space and machinery received from related parties amounted to \$67,121 and \$69,358, respectively.

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CTBC BANK CO., LTD. AND SUBSIDIARIES
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(ii) Donations

Related party	For the years ended December 31	
	2018	2017
CTBC Culture Foundation	\$ 44,000	49,000
CTBC Charity Foundation	54,000	54,000
CTBC Business School	59,971	50,412
Total	<u>\$ 157,971</u>	<u>153,412</u>

(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

(iv) Loans

December 31, 2018							
Categories	Number/name of related parties	Maximum balance	Ending balance	Settlement status		Collateral	Loan conditions
				Normal loans	Overdue loans		
Consumer loan—employee	43	\$ 20,620	15,125	15,125	-	None	Note
Home loan mortgage	519	2,739,317	2,500,001	2,500,001	-	Real estate/ others	"
Others	Nan Ya Plastics Corporation	3,346,842	3,346,842	3,346,842	-	Real estate/ plant/ machine room	"
"	CTC Group Inc.	396,456	386,568	386,568	-	Real estate	"
"	Jungguan Investment Co.,Ltd.	350,000	350,000	350,000	-	Real estate	"
"	Kuan Ho Development Co., Ltd.	245,000	245,000	245,000	-	Real estate	"
"	Others	253,234	236,320	236,320	-	Real estate	"

December 31, 2017							
Categories	Number/name of related parties	Maximum balance	Ending balance	Settlement status		Collateral	Loan conditions
				Normal loans	Overdue loans		
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	"
"	Others	132,026	119,560	119,560	-	Real estate	"

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

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(v) Deposits

Related party	December 31, 2018			Interest expenses (from January to December)
	Maximum balance	Ending balance	Range of interest rates	
Taiwan Life Insurance Co., Ltd.	\$ 44,868,913	15,241,564	0~0.50%	20,248
Showa Denko Hd Trace Corp.	2,544,117	2,316,988	0~2.98%	35,729
CTBC Securities Co., Ltd.	3,463,253	2,129,633	0~1.07%	12,132
Yan Yuan Investment Co., Ltd.	2,991,684	1,853,257	0~0.01%	161
Taiwan Sports Lottery Co., Ltd.	1,609,508	1,597,219	0~0.01%	82
HoFa Land Development Co., Ltd.	3,493,926	1,596,213	0~0.45%	10,651
Sungyong Investment Co., Ltd.	1,302,000	1,281,396	0~0.01%	72
CTBC Charity Foundation	1,109,917	983,674	0~1.07%	5,934
Taiwan Lottery Co., Ltd.	1,015,780	676,307	0~0.12%	593
Taiwan Institute of Economic Research	545,524	477,163	0~1.09%	2,399
CTBC Investments Co., Ltd.	503,096	441,185	0~0.48%	1,558
Yi Hua Investment Co., Ltd.	383,346	383,308	0~0.01%	23
Chia Shih Investment Co., Ltd.	380,945	380,903	0~0.01%	19
CTBC Securities Venture Capital Co., Ltd.	299,281	298,642	0.01~1.07%	488
Kainan High School of Commerce and Industry	319,913	289,487	0~1.04%	2,060
Kuan Ho Development Co., Ltd.	261,334	261,334	0~0.01%	20
Quanwei Investment Co., Limited	478,310	259,611	0~0.01%	24
Ronghua Investment Co., Ltd.	212,072	211,977	0~0.01%	10
Chinatrust Real Estate Co.	214,052	209,920	0~1.80%	1,812
Pei Sheng Culture Foundation	566,588	203,714	0~0.05%	167
Straits Exchange Foundation	196,830	196,830	0.10~1.09%	1,910
CTBC Asia Limited	797,989	180,184	0~2.77%	2,710
Wu Tzu Development Co., Ltd.	174,368	169,239	0~1.00%	164
Chailease Holding Company Limited (Cayman)	4,599,750	159,930	0~0.22%	74
Jing Kwan Investment Co., Ltd.	286,982	159,157	0.01%	9
CTBC Business School	197,283	148,572	0~1.09%	223
CTBC Financial Holding Co., Ltd.	17,594,183	148,137	0~0.22%	73
Chung Yuan Investment Co., Ltd.	149,965	143,737	0.01%	8
Sunghung Investment Co., Ltd.	145,437	143,265	0~0.01%	13
Yi Chuan Investment Co., Ltd.	212,242	128,054	0~0.01%	14
Hewei Investment Co., Ltd.	128,935	127,784	0~0.01%	11
Fenglu Development & Investment Co., Ltd.	216,213	124,143	0~0.01%	21
Kae Lee Investment Co., Ltd.	121,930	121,724	0~0.01%	12
Shin Ing Technology Co., Ltd.	111,125	111,125	0~1.07%	308
Chung Cheng Investments Development Co., Ltd.	113,720	110,978	0~0.01%	8
Heng Da Culture Foundation	106,657	105,216	0~3.15%	1,082
Others	20,576,665	7,885,575		42,892
Total	<u>\$ 112,293,833</u>	<u>41,257,145</u>		<u>143,714</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Related party	December 31, 2017			
	Maximum balance	Ending balance	Range of interest rates	Interest expenses (from January to December)
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
Chinatrust 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 Business School	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	<u>\$ 96,497,555</u>	<u>56,764,218</u>		<u>102,706</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(vi) Financial derivatives

December 31, 2018						
Related party	Derivative financial instruments	Contract period	Notional principal	Unrealized profit	Balance sheet	
					Account	Ending Balance
CTBC Investments Trust Funds	Foreign exchange swap	08.31.2018~03.04.2019	USD 117,250	2,939	(Note1)	2,939

December 31, 2017						
Related party	Derivative financial instruments	Contract period	Notional principal	Unrealized profit	Balance sheet	
					Account	Ending Balance
CTBC Investments Trust Funds	Foreign exchange swap	12.07.2017~01.11.2018	USD 2,650	(1,109)	(Note2)	(1,109)

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

Note 2: Financial liabilities measured at fair value through profit or loss.

(vii) Securities sold under repurchase agreements

Related party	For the year ended December 31, 2018		
	Ending balance	Interest payable	Interest expenses
Straits Exchange Foundation	\$ <u>13,600</u>	<u>2</u>	<u>66</u>

(viii) Securities transactions :

Related party	For the year ended December 31, 2018	
	Securities bought	Securities sold
CTBC Securities Co., Ltd.	\$ <u>50,000</u>	<u>-</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(ix) Others

1) Commission and other income

Related party	Summary	For the years ended December 31	
		2018	2017
Taiwan Life Insurance Co., Ltd.	Commission for joint sales, income from group catering, commission income and allocation of information	\$ 5,100,560	5,532,257
Taipei Financial Center Corporation	Commission income, the remunerations to directors and supervisors and dividend income	172,369	59,969
Grand Bills Finance Corporation	Commission income, the remunerations to directors and supervisors, resignation income and transportation allowance	4,345	860
TLG Insurance Co., Ltd.	Commission income, commission for joint sales, allocation of information and insurance claims	39,396	29,281
CTBC Investments Co., Ltd.	Feedback fund, income from group catering, allocation of information and commission income	33,327	41,401
CTBC Financial Holding Co., Ltd.	Allocation of information, commission income and income from group catering	25,069	23,773
CTBC Securities Co., Ltd.	Allocation of information, profits from selling products, income from group catering and commission income	20,019	16,695
Taiwan Lottery Co., Ltd.	Income from group catering, allocation of information and income from machine relocation	5,179	5,802
Sungbo Co., Ltd.	Commission income	3,067	-
CTBC Asia Limited	Commission income	2,978	2,585
Kinpo Electronics, Inc.	Commission income	2,059	2,006
CTBC Charity Foundation	Commission income and allocation of information	1,502	439
Chinatrust Real Estate Co., Ltd	Business service income	566	-
CTBC Venture Capital Co., Ltd.	Remittance fees, confirmation fees, income from group catering, trust management and allocation of information	500	555
Individuals	Commission income	5,913	5,761
		<u>\$ 5,416,849</u>	<u>5,721,384</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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

<u>Related party</u>	<u>Summary</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taiwan Life Insurance Co., Ltd.	Commission for joint sales, income from group catering, commission income and allocation of information	\$ 440,987	664,579
Grand Bills Finance Corporation	Commission income, the remunerations to directors and supervisors, resignation income and transportation allowance	65	62
TLG Insurance Co., Ltd.	Commission income, commission for joint sales, allocation of information and insurance claims	38	23
CTBC Investments Co., Ltd.	Feedback fund, income from group catering, allocation of information and commission income	1,465	620
CTBC Financial Holding Co., Ltd.	Allocation of information, commission income and income from group catering	2,402	4,743
CTBC Securities Co., Ltd.	Allocation of information, profits from selling products, income from group catering and commission income	601	497
Taiwan Lottery Co., Ltd.	Income from group catering, allocation of information and income from machine relocation	359	625
CTBC Asia Limited	Commission income	85	167
Kinpo Electronics, Inc.	Commission income	-	164
CTBC Venture Capital Co., Ltd.	Remittance fees, confirmation fees, income from group catering, trust management and allocation of information	60	81
CTBC Charity Foundation	Commission income and allocation of information	445	436
		<u>\$ 446,507</u>	<u>671,997</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

2) Handling fees and other general administration expenses

Related party	Summary	For the years ended December 31	
		2018	2017
Taiwan Lottery Co., Ltd.	Lottery service fees and maintenance fees	\$ 1,221,894	1,528,907
Brothers Entertaining Co., Ltd.	Sponsorship, marketing feedback fund and gift expenses	290,015	229,376
CTBC Security Co., Ltd.	Security fees	139,491	131,871
CTBC Financial Park Management authority	The Bank's headquarters management fees	137,636	151,001
Taiwan Life Insurance Co., Ltd.	Group insurance fees, bonus for joint sales campaigns and rental fees	127,427	126,604
Taipei Financial Center Corporation	Sponsorship, joint-brand credit card payment, and ATM utilities	117,206	126,643
Taiwan Relo Club, Limited	Marketing fees and gift expenses	44,238	52,842
CTBC Securities Co., Ltd.	Service fees for trust, brokerage fees and rental fees	31,651	32,727
Fina Finance & Trading Co., Ltd.	Business service fees	22,387	69,627
TLG Insurance Co., Ltd.	Insurance fees	18,245	14,910
APEX Credit Solutions Inc.	Collection assistance fees	17,873	17,043
Taiwan Institute of Economic Research	Expense for domestic economics research and business consulting commissioned research	12,400	13,850
TLG Capital Co., Ltd.	Rental fees for official vehicles	10,061	7,864
Chailease Finance Co., Ltd.	Leasing of official vehicles, rental fees, and business service fees	5,071	9,982
Chinese Taipei Baseball Association	Sponsorship for right of title	5,000	-
Chailease Auto Rental Co., Ltd.	Rental fees for official vehicles and repair expenses	2,446	840
Sungbo Co., Ltd.	Gift expenses and management fees	2,262	1,755
CTBC Technology Building Management authority	Management fees	2,242	-
Chung-Chie Property Management Co., Ltd.	Outsourcing fees and repair expenses	2,170	8,568
Chinatrust Real Estate Co.	Agency service fees	2,101	-
CTBC Financial Holding Co., Ltd	Gift expenses	1,708	-
Asian Banker Association	Annual fee and sponsorship	795	-
CTBC Culture Foundation	Business promotion fees and gift expenses	626	799
Global Hospitality Group Inc.	Boarding and catering fees	-	1,205
		<u>\$ 2,214,945</u>	<u>2,526,414</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Foregoing transactions, accounts payable balances were as follows:

Related party	Summary	December 31, 2018	December 31, 2017
Taiwan Lottery Co., Ltd.	Lottery service fees and maintenance fees	\$ 101,266	412,540
Brothers Entertaining Co., Ltd.	Sponsorship, marketing feedback fund and gift expenses	146	3,779
CTBC Security Co., Ltd.	Security fees	16,275	5,011
CTBC Financial Park Management authority	The Bank's headquarters management fees	33,999	28,681
Taiwan Life Insurance Co., Ltd.	Group insurance fees, bonus for joint sales campaigns and rental fees	11,718	12,139
Taipei Financial Center Corporation	Sponsorship, joint-brand credit card payment, and ATM utilities	11,588	13,144
CTBC Securities Co., Ltd.	Service fees for trust, brokerage fees and rental fees	5,153	5,147
Fina Finance & Trading Co., Ltd.	Business service fees	1,502	5,024
TLG Insurance Co., Ltd.	Insurance fees	5,564	4,370
APEX Credit Solutions Inc.	Collection assistance fees	2,051	3,460
Taiwan Institute of Economic Research	Expense for domestic economics research and business consulting commissioned research	5,100	6,550
Chailease Finance Co., Ltd.	Leasing of official vehicles, rental fees, and business service fees	81	314
Sungbo Co., Ltd.	Gift expenses and management fees	134	157
CTBC Technology Building Management authority	Management fees	739	-
Chung-Chie Property Management Co., Ltd.	Outsourcing and maintenance expenses	85	206
		\$ 195,401	500,522

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

3) Others

<u>Related party</u>	<u>Summary</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Taipei Financial Center Corporation	Balance of share holdings	\$ 478,440	371,250
Fina Finance & Trading Co., Ltd.	Released undue loans (Note1)	140,082	426,851
Chailease Finance Co., Ltd.	Released undue loans (Note1)	6,296	23,999
CTBC Asia Limited	Advances for office rentals	3,479	4,169
CTBC Financial Holding Co., Ltd.	Purchase of computers, sales of buildings, office equipments and computers	227	3,775
CTBC Asset Management Co., Ltd.	Profits in property transactions-Investment property(Note2)	-	2,535,287
Others	Advances for utilities expenses, security fees, training and other expenses	8,002	8,184
		<u><u>\$ 636,526</u></u>	<u><u>3,373,515</u></u>

Note1: The Bank signed a strategic alliance agreement with Fina Finance & Trading Co., Ltd. and Chailease Finance Co., Ltd. agreeing loans will be released directly to Fina and Chailease's clients, and Fina 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.

No significant discrepancy in transaction terms found between related party transaction and non-related party transaction.

(c) Key management personnel compensation in total

	<u>For the years ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Salary and other short-term employee benefits	\$ 1,186,667	1,165,369
Post-employment benefits	16,620	19,064
Share-based payment	414,744	204,718
Total	<u><u>\$ 1,618,031</u></u>	<u><u>1,389,151</u></u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(8) Pledged Assets:

Pledged assets of the Bank and 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, 2018	December 31, 2017	
Due from Central Bank and call loans to bank	Time deposit	-	5,100,000	Deposits for calling loans in foreign currency, call loan liquidation account in U.S. dollars and deposits for bills dealer
Financial assets measured at fair value through profit or loss	Bond	-	24,492,284	Repurchase agreement pledge and marketable securities entrusted
Available for sale financial assets — net	Bond	-	10,647,850	Credit line from Federal Reserve Bank, guarantee deposits for transaction settlements and call loans from banks, repurchase agreement pledge, futures margins, other deposits and pledge
	NCD of Central Bank	-	3,000,000	Daytime overdrafts of Central Bank, call loan liquidation account in U.S. dollars and deposits for calling loans in foreign currency
	Government bond	-	17,646,374	Overdrafts secured, repurchase agreement pledge, futures margins and other required reserve and guarantee deposit
Financial assets measured at fair value through other comprehensive income	Bond	17,125,926	-	Overdrafts secured, credit line from Federal Reserve Bank and other deposits, pledge, repurchase agreement pledge
	Government bond	66,249	-	Overdrafts secured
Receivables	Matured securities classified under other receivables	1,300	9,400	Deposits for litigation and others
Held to maturity financial assets	NCD of Central Bank	-	21,800,000	Daytime overdrafts of Central Bank, deposits for calling loans in foreign currency, call loan liquidation account in JPY and call loan liquidation account in U.S. dollars
	NCD	-	391,000	Guarantee fulfillment of longterm prepaid rent
	Government bond	-	741,417	Trust funds reserve, bond settlement reserves, deposits for litigation and other, other legal reserve and other (Bid bond)

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Assets	Type of securities	Par value of refundable deposits		Purpose of collateral
		December 31, 2018	December 31, 2017	
Investment in debt instruments measured at amortized cost	NCD of Central Bank	29,900,000	-	Daytime overdrafts of Central Bank, deposits for bills dealer, deposits for calling loans in foreign currency, call loan liquidation account in U.S. dollars and call loan liquidation account in JPY
	NCD	391,000	-	Guarantee fulfillment of longterm prepaid rent
	Government bond	1,064,550	-	Trust funds reserve, bond settlement reserves, deposits for litigation and other, other legal reserve, other (Bid bond)
Other financial assets	Time deposit	368,742	473,695	Operational guarantee deposit for securities dealer, underwriting guarantee deposit for securities dealer, guarantee deposit for futures dealer, CPC Corporation, Taiwan guarantee fulfillment and public welfare walkway guarantee fulfillment

As of December 31, 2018 and 2017 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, 2018	December 31, 2017
Contingent liabilities from guarantee and letter of credit business	\$ 85,412,623	83,585,619
Promissory note to Central Bank for Bank's clearance	575,110	969,419
Client notes in custody	94,305,146	91,164,866
Marketable securities and debts in custody	2,939,919,751	2,585,480,564
Consigned travelers' checks in custody	268,568	283,004
Designated purpose trust accounts	1,005,007,104	841,738,263
Other items in custody	487,664	444,735
Total	<u><u>\$ 4,125,975,966</u></u>	<u><u>3,603,666,470</u></u>

As of December 31, 2018 and 2017, the credit amount of the cancellable loan commitments of the Bank and subsidiaries were \$1,316,824,268 and \$1,517,591,873, respectively.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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 service will be finished as all the settlement, consignment and aftermath of the work have been done.

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.

On September 4, 2012, the Bank signed with Continental Development Corporation (hereafter “Continental Development”) a contract of purchase of buildings and land. 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. Besides, on April 27, 2018, the Bank signed supplementary clauses with Continental Development, and expected to 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 6th floors and part of 7th floor including the part of the new building should belong to the Bank. The building area is expected to be 3,455.41 Ping with 11 plane parking spaces and 86 mechanical parking spaces in the basement. The Bank paid the contract price in installments proportionately with construction progress during the contract period, accounted for under premises and equipment – net, prepayment for land and buildings. On December 24, 2018, the Bank signed supplementary clauses with Continental Development to make an additional construction cost \$60,051. As of December 31, 2018, the outstanding balance amounted to \$60,051. The property is expected to be delivered in January, 2019.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

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, accounted under premises and equipment-net, prepayment for land and buildings. As of December 31, 2018, the outstanding balance amounted to \$224,086.

On November 6, 2015, the Bank signed with Zile Development Co., Ltd.(BVI) and Shuohe Development Co., Ltd. a contract of joint construction for a building on the land, zone 18 at Xinyi section 4, Xinyi District, Taipei City. The Bank will retain 5% of the rights of the land for joint construction, get 5% of the whole construction area of the new building and the corresponding land, and burden 5% of the costs of construction based on purchase contract and joint construction contract. The Bank expects to invest \$530 million of the total costs of the construction. As of December 31, 2018, the Bank has paid \$37,261.

As of December 31, 2018, the unpaid amount of the committed investment facility of signed private fund contract of the Bank and subsidiaries were JPY 4,585,125 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, 2018	December 31, 2017	Trust Liabilities	December 31, 2018	December 31, 2017
Cash	\$ 32,486,154	43,595,648	Payables	425,228,493	231,962,660
Bonds	20,162,495	15,753,104	Other liabilities	104,016	42,949
Stocks	169,326,755	204,422,205	Trust capital	547,105,178	540,889,727
Mutual funds	285,764,308	278,511,607	Miscellaneous reserves and accumulated earnings	31,731,586	67,906,551
Structured products	19,700,853	19,325,008			
Other investments	2,794,970	1,940,434			
Receivables	88,061	25,149			
Real estates—net	49,250,605	46,092,141			
Securities in custody	424,564,283	231,121,155			
Other assets	30,789	15,436			
Total trust assets	<u>\$1,004,169,273</u>	<u>840,801,887</u>	Total trust liabilities	<u>1,004,169,273</u>	<u>840,801,887</u>

Note: As of December 31, 2018 and 2017, the Bank's Offshore Banking Unit invested in foreign securities under specific purpose trust accounts amounting to \$3,314,631 and \$2,336,913, respectively.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

Properties Catalog of Trust Accounts

Investments	December 31, 2018	December 31, 2017
Cash	\$ 32,486,154	43,595,648
Bonds	20,162,495	15,753,104
Stocks	169,326,755	204,422,205
Mutual funds	285,764,308	278,511,607
Structured products	19,700,853	19,325,008
Other investments	2,794,970	1,940,434
Receivables	88,061	25,149
Real estates — net		
Lands	49,191,030	46,006,798
Buildings	<u>59,575</u>	<u>85,343</u>
Subtotal	<u>49,250,605</u>	<u>46,092,141</u>
Securities in custody	424,564,283	231,121,155
Other assets		
Prepaid other payments	608	784
Long-term prepaid rent	<u>30,181</u>	<u>14,652</u>
Subtotal	<u>30,789</u>	<u>15,436</u>
Total	<u><u>\$ 1,004,169,273</u></u>	<u><u>840,801,887</u></u>

Income Statement of Trust Accounts

	For the years ended December 31	
	2018	2017
Trust revenues	\$ 9,068,760	9,547,473
Trust expenses	<u>(1,088,558)</u>	<u>(603,146)</u>
Earnings before tax	7,980,202	8,944,327
Income tax	<u>(7,337)</u>	<u>(30,667)</u>
Net profits	<u><u>\$ 7,972,865</u></u>	<u><u>8,913,660</u></u>

(c) Operating lease

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

	December 31, 2018	December 31, 2017
Less than 1 year	\$ 1,068,853	1,038,987
1 year to 5 years	1,673,677	2,085,422
More than 5 years	<u>677,948</u>	<u>752,552</u>
Total	<u><u>\$ 3,420,478</u></u>	<u><u>3,876,961</u></u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

After appealing for third instance, the Supreme Court of Republic of China has revoked the original second verdict of August 2014 and urged Taiwan High Court to re-examine its verdict. The first verdict of the case has been modified by Taiwan High Court that partial parties are guilty as of September 12, 2018, and the others are not. All of the guilty parties and Taiwan High Prosecutors Office have already filed the appeal. Thus, the case has not yet final. According to the legal opinion issued by the counsel retained by CTBC Holding, “Red Fire have remitted the profits from the Structured notes- around US\$ 20.90 million of the book value, to the CT Opportunity Company, which is the overseas sub-subsubsidiary of CTBC Holding. At the same time, the shareholders of CTBC Holding have reimbursed US\$ 30,474,717 to CTBC Bank. As the total amount of the aforementioned reimbursement and the remittance have already exceeded the profits of the book value from the redemption of the Structured notes, CTBC Holding has not suffered from the damage. Furthermore, regarding the legal liability, the aforementioned case is deemed as a criminal case, and considering the fact that CTBC Holding is a corporate entity, the employees’ individual criminal liability will not have any influence on CTBC Holding. Meanwhile, the case has not yet finished. Therefore, there should be no significant negative effects on the financial or business operations of CTBC Holding, and the fact that CTBC Holding has not suffered from the damage would not be affected as well.” The Bank evaluates that this case is expected to have no significant impact on its operation and shareholders’ equity.

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 notified 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 proceeds therefrom. CTBC Holding has appointed external legal counsel to represent it during the judiciary proceeding. So far, Taiwan High Court has pronounced that there is no confiscation and compulsory collection of CTBC Holding’s property on September 12, 2018. The reason of the judgment was briefly concluded that as there was not any illegal behavior of manipulation of security prices, so CTBC Holding did not withhold any illegal proceeds therefrom.

(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 on January 12, 2017 and the additional prosecution on January 4, 2018 by the Taipei District Prosecutors Office against employees of the Bank involving earning unjust price gains from the transaction of the land at Zone 15-2, Ankang Section, Neihu Dist., Taipei City and two buildings for computer facilities and administration building, respectively, at Zone 13-1 and 13-7, Ankang Section, Neihu Dist., Taipei City, Taipei District Court has pronounced that all defendants are guilty of the aforementioned prosecution on October 11, 2018. All defendants have already filed the appeal. Meanwhile, the additional prosecution is still on the trial.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the aforementioned judgment of the transactions of the two buildings, which was pronounced that CTBC Holding and the Bank have suffered from the damage, according to the legal opinion issued by the counsel retained by CTBC Holding, “The purchases of the two buildings have all been approved by the Board of Directors of the Bank, and the Bank has appointed professional appraisal institutions to provide the appraised values of the two buildings as reference. Despite the fact that Taipei District Court determined that the appointed appraisal institutions had lost objectivity concerning the above transactions, the judgment did not deny the conclusion of the appraisal reports prepared by the appraisal institutions. The acquisition prices of the two buildings were lower than the appraisal prices provided by the appraisal institutions, and both of the acquisition prices did not exceed the authorized amount set by the Board of the Directors of the Bank. Considering the aforementioned facts, the acquisition prices of CTBC Bank should be commensurate with the reasonable prices by that time. Meanwhile, the persons in charge of the transactions also followed the resolution of the board, which were not illegal. Therefore, the transactions didn't cause any damages to the Bank. Furthermore, regarding the legal liability, the aforementioned case is deemed as a criminal case, and considering the fact that CTBC Holding is a corporate entity, the employees' individual criminal liability will not have any influence on CTBC Holding. Meanwhile, the case has not yet finished. Thus, there should be no significant disadvantageous effects on the financial or business operations of the Bank or CTBC Holding.”

In addition, for the aforementioned judgment which determined that the trade between Yongyue Development Co., Ltd. and the Bank was a related-party transaction, and should be revealed in the financial reports of CTBC Holding and the Bank, the board of directors of CTBC Holding assigned the management departments to coordinate with external legal counsel to analyze the case. According to the analysis report, “Mr. Chang was not a substantial responsible person of the company, and he did 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 the buildings at Zone 13-1 and 13-7, at the Ankang Section, Neihu Dist., Taipei City, were in compliance with legal procedures. Moreover, Mr. Chang did not attend the board meeting, which resolved to purchase of the aforementioned real estates. Mr. Chang did not participate in the decision-making procedures.” Besides, according to the legal opinion issued by the external counsel, “Based on the definitions and explanations from the regulations that were effective at that time including Regulations Governing the Acquisition and Disposal of Assets by Public Companies, Paragraph 1, Article 45 of Financial Holding Company Act, Regulations governing the transactions other than credit extension by the quasi-interested party of CTBC Bank that amended by the Bank on July 31, 2013, Regulations Governing the Preparation of Financial Reports by Securities Issuers, Regulations Governing the Preparation of Financial Reports by Public Banks, or IAS 24 and related regulation or explanation, etc., which should apply to the transactions of computer facilities building and administration building. Mr. Chang should not be considered as an interested party or a quasi-interested party of the Bank in formal or in substantial.”

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

“Ms. Wu, the shareholder and the ultimate beneficiary person of Yongyue Development Co., is the spouse of the man whose brother is Mr. Chang, the senior executive officer of CTBC Bank (viz. second-degree by marriage in law.), but Ms. Wu does not take on any duties with decision-making power over the business of the company specified in the aforementioned regulations. Meanwhile, she did not occupy any positions as defined in the Section 9 of IAS24(Part A). Thus, Ms. Wu is not an interested party or quasi-interested party of CTBC Bank, either.”

Cited from the aforesaid analysis report and legal opinion, Mr. Chang is not the substantial responsible person in charge of the Bank, and not an interested party or a quasi-interested party of the Bank in formal or in substantial. Suppose that Mr. Chang was the substantial person in charge of the Bank, his second-degree relatives by marriage should not be considered as the interested party or quasi-interested party of the Bank in accordance with Section 9 of IAS24(Part A). Therefore, Ms. Wu must not be the interested party or quasi-interested party of the Bank as well.

Besides, according to the legal opinion mentioned above, “Regardless the trial is not finished, the current evidence in the verdict is not strong enough to support the point that Mr. Chang substantially ran Yongyue Development Co., and the investment profits of Yongyue Development Co. are also not related to Mr. Chang. Judging from the above information, since the transactions between the Bank and Yongyue Development Co. should not be considered as related-party transactions, it is unnecessary to reveal such information in the financial reports.”

“In addition, according to the objective evidence revealed from the reason for the decision, there is no evidence to determine that Mr. Chang was a substantially-managing person of Yongyue Development Co. as mentioned above, and Mr. Chang and Ms. Wu are not the interested parties or quasi-interested parties of CTBC Bank. In view of this, we could judge that Yongyue Development Co. must not be considered as related-party or quasi-interested party of CTBC Bank. Since the purchases of the two buildings of CTBC Holding and the Bank were not related to related-party transactions, CTBC Holding did not need to reveal such information as transactions with related-parties in its quarterly financial reports and annual financial reports, which means that there were no misstatements in the financial reports.”

According to the above opinion of legal counsel, the acquisition prices of the two buildings were reasonable at that time. The persons in charge of the transactions were also in compliance with the resolution by the board, which were not illegal. Thus, the Bank did not suffer from the damage of the transactions of two real estates. Besides, neither of Mr. Chang and Yongyue Development Co. is the related-party or quasi-interested party of the Bank so CTBC Holding is not required to reveal these as related-parties transactions in its quarterly and annual financial reports, which means that there are no misstatements in the financial reports. So far, the Bank evaluates that this case is expected to have no significant impact on its operation and shareholders' equity.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(10) Significant Catastrophic Losses:None

(11) Significant Subsequent Events:None

(12) Other:

(a) Profitability

Unit: %

Items		December 31, 2018	December 31, 2017
Return on assets ratio (annual)	Before income tax	0.93	1.01
	After income tax	0.77	0.82
Return on equity ratio (annual)	Before income tax	12.42	13.76
	After income tax	10.32	11.27
Net income ratio		31.12	32.05

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

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

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

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.

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

(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, 2018 (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:

In Thousands of New Taiwan Dollars/Thousand Shares

Name of company	Category and name of security	Account name	Counterparty	Relationship	Beginning Balance		Purchases		Sales				Ending Balance (note)	
					Shares	Amount	Shares	Amount	Shares	Price	Cost	Gain (loss) on disposal	Shares	Amount
CTBC Bank Co., Ltd.	Securities	Investment under equity method-net	Xiamen Jinmeixin Consumer Finance Co., Ltd.	Investment under equity method	-	-	-	795,471	-	-	-	-	-	761,208

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: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:

In Thousands of New Taiwan Dollar

Name of company	Counterparty	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.	440,987	- %	-	-	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
March 15, 2018	LR Servicing, Ltd.	Non-secured loan	JPY	190,284	JPY	184,608	JPY (5,676)	None	Non-related party
May 25, 2018	Millennium Servicing, Ltd.	Secured loan	JPY	12,277	JPY	12,280	JPY 3	None	Non-related party
May 25, 2018	Aozora Servicing, Ltd.	Secured loan	JPY	13,274	JPY	13,274	JPY -	None	Non-related party
May 25, 2018	Astry Servicing, Ltd.	Secured loan	JPY	12,604	JPY	9,542	JPY (3,062)	None	Non-related party
May 25, 2018	Abilio Servicer Co., Ltd.	Secured loan	JPY	29,739	JPY	29,739	JPY -	None	Non-related party
May 25, 2018	Yamada-Servicer.co.jp	Secured loan	JPY	13,143	JPY	13,143	JPY -	None	Non-related party
November 30, 2018	Aozora Servicing, Ltd	Secured loan	JPY	3,253	JPY	1,342	JPY (1,910)	None	Non-related party
November 30, 2018	Abilio Servicer Co., Ltd	Secured loan	JPY	34,946	JPY	40,288	JPY 5,342	None	Non-related party
November 30, 2018	Millennium Servicing, Ltd	Secured loan	JPY	11,000	JPY	11,000	JPY -	None	Non-related party

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Trade date	Counterparty	Debt component	Book value	Sale price	Gain (loss) on disposal	Additional term	Relationship
November 30, 2018	Yamada-Servicer.co.jp	Secured loan	JPY 39,032	JPY 47,298	JPY 8,266	None	Non-related party
December 10, 2018	Japan Collection Service Co., Ltd	Non-secured loan	JPY 231,236	JPY 42,150	JPY (189,086)	None	Non-related party
December 26, 2018	Aozora Bank, Ltd	Secured loan	JPY 193,116	JPY 497,324	JPY 304,208	None	Non-related party

2) Disposal of a single batch of NPL up to \$1,000,000: 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 nine months ended December 31, 2018			
				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	6,105,740	Identical with non-related parties	0.15%
"	"	The Tokyo Star Bank, Ltd.	"	Due from Central Bank and call loans to bank/ Deposits from Central Bank and other banks	6,146,600	"	0.16%
"	"	CTBC Bank (Philippines) Corp.	"	Due from Central Bank and call loans to bank/ Deposits from Central Bank and other banks	2,335,708	"	0.06%
"	"	"	"	Loans/ Due to Central Bank and other banks	2,304,975	"	0.06%
"	"	PT Bank CTBC Indonesia	"	Loans/ Due to Central Bank and other banks	1,444,451	"	0.04%

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:

The following is the information on investees for the years ended December 31, 2018 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Name of investee company	Location	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Bank and subsidiaries				Note
						Number of shares	Number of pro forma shares	Total		
								Number of shares	Shareholding ratio	
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%	4,513,216	135,791	246,496	-	246,496	99.60%	The transaction on the left has been written off when composing consolidated financial report.
PT Bank CTBC Indonesia	Tamara Center, 15th-17th Fl., Jl Jenderal Sudirman Kav. 24 Jakarta 12920 Indonesia	Primarily engages in commercial banking and financing business	99.00%	5,827,643	204,845	1	-	1	99.00%	"
CTBC Bank Corp.(Canada)	1518 West Broadway, Vancouver, B.C. ,Canada, V6J 1W8	Primarily engages in commercial banking and financing business	100.00%	1,488,940	112,390	2,746	-	2,746	100.00%	"
CTBC Capital Corp.	801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, USA	Investment business	100.00%	15,474,440	1,146,974	6	-	6	100.00%	"

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Name of investee company	Location	Main business scope	Shareholding ratio	Book Value	Investment gain(loss) recognized	Aggregate shareholding of the Bank and subsidiaries				Note
						Number of shares	Number of pro forma shares	Total		
								Number of shares	Shareholding ratio	
Grand Bills Finance Corporation	11F., No.560, Sec. 4, Zhongxiao E. Rd., Taipei City 106,Taiwan (R.O.C.)	Proprietary traders of short-term bills and bonds	21.15%	1,975,668	120,323	114,399	-	114,399	21.15%	
CTBC Bank Corp.(USA)	801 S. Figueroa Street, Suite 2300, Los Angeles, CA 90017, USA	Primarily engages in commercial banking and financing business	100.00%	14,714,390	1,175,565	common shares 3 preferred shares 100	-	common shares 3 preferred shares 100	100.00%	The transaction on the left has been written off when composing consolidated financial report.
The Tokyo Star Bank, Ltd.	2-3-5 Akasaka, Minato-Ku, Tokyo, 107-8480, Japan	Primarily engages in commercial banking and financing business	100.00%	42,605,384	2,458,132	700	-	700	100.00%	"
Tokyo Star Business Finance, Ltd.	2-7-1, Nishi-Shinjuku, Shinjuku, Tokyo	Financing and assurance business	100.00%	3,203,179	51,370	1,936	-	1,936	100.00%	"
TSB Servicer, Ltd.	2-2-17 Akasaka, Minato, Tokyo	Debts management business	100.00%	568,053	35,987	-	-	-	100.00%	"
AZ Star Co., Ltd	3-2-7, Kudan-minami, Chiyodaku, Tokyo	Fund management business	40.00%	20,511	59,510	-	-	-	40.00%	
AZ Star no. 1 Investment Limited Partnership	3-2-7, Kudan-minami, Chiyodaku, Tokyo	Equity investment business	43.98%	105,543	88,260	3	-	3	43.98%	
AZ Star no. 3 Investment Limited Partnership	3-2-7, Kudan-minami, Chiyodaku, Tokyo	Equity investment business	30.86%	153,204	(1,430)	3	-	3	29.35%	
LH Financial Group Public Company Limited	1Q,House Lumpini Building, 5th Floor, South Sathon Road, Thungmahamek, Sathon, Bangkok 10120	Investment business	35.62%	16,520,616	1,033,093	7,544,961	-	7,544,961	35.62%	
Xiamen Jinmeixin Consumer Finance Co., Ltd.	Xiamen International Financial Central 6th Floor,No.82, Hongzhan Load,Siming Dist., Xiamen City,China(P.R.C)	Consumer financial business	34.00%	761,208	456	-	-	-	34.00%	

(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, 2018	Investment flows		Accumulated outflow of investment from Taiwan as of December 31, 2018	Investment gains (losses) (Note 2)	Percentage of ownership for direct or indirect investment	Investment gains (losses) (Note 2)	Book value as of December 31, 2018	Accumulated inward remittance of earning as of December 31, 2018
					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	(17,438) CNY (5,366)	A branch in Shanghai; not an investee	(17,438)	6,757,711	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	419,088 CNY 91,410	A branch in Guangzhou; not an investee	419,088	4,378,518	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	195,096 CNY 42,642	A branch in Xiamen; not an investee	195,096	3,906,398	None
CTBC Bank Co., Ltd., Shenzhen Branch	"	1,351,890 CNY 100,000 USD 29,395	3	-	1,351,890 CNY 100,000 USD 29,395	-	1,351,890 CNY 100,000 USD 29,395	-	A branch in Shenzhen established on January 9, 2019; not an investee.	-	1,351,890	None
Xiamen Jinmeixin Consumer Finance Co., Ltd.	Financing business	795,471 CNY 170,000	1	-	795,471 CNY 170,000	-	795,471 CNY 170,000	1,341 CNY 301	34%	456	761,208	None

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

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, 2018	Investment amounts authorized by Investment Commission, MOEA	Upper limit on investment authorized by Investment Commission, MOEA
16,537,445 (USD 365,971) (CNY 1,070,000)	16,701,014 (CNY 3,370,000)	177,488,934

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

(14) Segment Information:

The Bank and 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 operating activities of other segments are investing and general administration. For the years ended December 31, 2018 and 2017, 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, 2018	Institutional banking	Retail banking	Other segments	Total
Net interest income	\$ 32,649,395	19,731,878	412,090	52,793,363
Non-interest income	17,887,079	22,767,500	1,928,836	42,583,415
Net income	50,536,474	42,499,378	2,340,926	95,376,778
Net Income Before Tax	<u>\$ 20,408,351</u>	<u>18,145,786</u>	<u>(2,822,618)</u>	<u>35,731,519</u>
Total assets	<u>\$ 2,919,712,453</u>	<u>975,650,565</u>	<u>64,214,800</u>	<u>3,959,577,818</u>
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	<u>\$ 18,562,997</u>	<u>17,805,028</u>	<u>280,366</u>	<u>36,648,391</u>
Total assets	<u>\$ 2,817,813,347</u>	<u>880,106,889</u>	<u>63,578,284</u>	<u>3,761,498,520</u>

(Continued)

CTBC BANK CO., LTD. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements

- (b) Geographic segment information: Not applicable to the interim financial statements.

Region	For the years ended December 31	
	2018	2017
Net income :		
Taiwan	\$ 62,826,963	63,411,941
Asia	27,728,081	25,815,447
North America	4,821,734	4,455,806
Total	<u>\$ 95,376,778</u>	<u>93,683,194</u>
Non-current assets :		
Taiwan	\$ 77,268,546	68,946,868
Asia	18,507,216	14,252,665
North America	2,332,268	2,278,783
Total	<u>\$ 98,108,030</u>	<u>85,478,316</u>

- (c) Information on major customers:

For the years ended December 31, 2018 and 2017, no individual customer of the Bank and subsidiaries accounted for 10% or more of the Bank and subsidiaries' revenue in the statements of income. Therefore, disclosure of information on major customers is not required.

CTBC BANK CO., LTD.

Financial Statements

**With Independent Auditors' Report
For the Years Ended December 31, 2018 and 2017**

**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 independent 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 independent auditors' report and financial statements, the Chinese version shall prevail.



安侯建業聯合會計師事務所

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Independent Auditors' Report

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

Opinion

We have audited the financial statements of CTBC Bank Co., Ltd. ("the Bank"), which comprise the balance sheets as of December 31, 2018 and 2017, the statement of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2018 and 2017, 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 at December 31, 2018 and 2017, and its financial performance and its cash flows for the years ended December 31, 2018 and 2017 in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants.

Basis for Opinion

We conducted our audit in accordance with the 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 for our opinion.

Emphasis of Matter

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2018. 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 for the accounting assumptions and estimation uncertainty, and Note 6 (ao) for the other details.

Description of key audit matter:

Parts of the financial instruments owned by the Bank as of December 31, 2018 were valued via evaluation model due to the lack of transaction prices at active market, 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.

How the matter was addressed in our audit:

Our principal audit procedures included: Testing the management's control procedures over the classification, measurement and disclosure of fair value of financial instruments, including evaluating how the management determines the classification of financial instruments, chooses the appropriate evaluation method and decides 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 for the accounting assumptions and estimation uncertainty, and Note 6 (i), (j), (k), (ao) for the other details.

Description of key audit matter:

The management assessed the expected credit loss (ECL) of loans and receivables by identifying whether the credit risk of credit assets has significantly increased since initial recognition, then dividing ECL into 12-month ECL and lifetime ECL, 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, current market conditions and forward-looking estimation 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.

How the matter was addressed in our audit:

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, loss given default, exposure at default, 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.

Auditors' 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 auditors' 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 auditors' 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 the financial statements. We are responsible for the direction, supervision and performance of the audit and developing the Bank's audit opinion.



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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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, 2019

Notes to Readers

The accompanying financial statements are intended only to present the statement of financial position, financial performance and 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 independent 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 independent auditors' report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD.

Balance Sheets

December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	ASSETS	December 31, 2018		December 31, 2017		LIABILITIES AND EQUITY		December 31, 2018		December 31, 2017	
		Amount	%	Amount	%	Liabilities:		Amount	%	Amount	%
11000	Cash and cash equivalents (note 4 and 6(a))	\$ 80,277,801	3	78,962,339	3			\$ 71,980,131	2	62,448,335	2
11500	Due from Central Bank and call loans to banks (note 6(b), 7 and 8)	133,740,059	4	167,619,090	6	Deposits from Central Bank and other banks (note 6(s) and 7)					
12000	Financial assets measured at fair value through profit or loss (note 4, 6(c) and (u) and 7)	144,999,930	5	99,461,184	3	Due to Central Bank and other banks (note 6(t))		396,555	-	770,271	-
12100	Financial assets measured at fair value through other comprehensive income (note 4, 6(d) and (u), and 8)	186,348,230	6	-	-	Financial liabilities measured at fair value through profit or loss (note 4, 6(c), and 7)		82,434,630	3	59,124,552	2
12200	Investment in debt instruments at amortized cost (note 4, 6(e) and (u), and 8)	581,713,332	18	-	-	Financial instruments-hedging/Derivative financial liabilities-hedging-net (note 4 and 6(g))		184,195	-	16,865	-
14000	Available-for-sale financial assets-net (note 4, 6(f) and (u), and 8)	-	-	140,560,022	5	Securities sold under repurchase agreements (note 4, 6(u) and 7)		60,659,817	2	53,163,109	2
12300	Financial instruments-hedging/Derivative financial assets-hedging-net (note 4 and 6(g))	34,212	-	137,010	-	Payables (note 6(v) and 7)		71,319,250	2	63,969,796	2
12500	Securities purchased under resell agreements (note 4 and 6(h))	1,481,876	-	-	-	Current income tax liabilities (note 4)		1,870,430	-	2,038,009	-
13000	Receivables-net (note 4, 6(i), (k) and (ao), 7 and 8)	152,998,614	5	116,935,669	4	Deposits and remittances (note 6(w) and 7)		2,498,022,245	79	2,357,738,017	80
13200	Current income tax assets (note 4)	818,382	-	421,834	-	Financial debentures (note 6(c), (g) and (x))		58,999,992	2	67,928,314	2
13500	Loans-net (note 4, 6(j), (k) and (ao), and 7)	1,713,497,284	54	1,568,002,853	53	Other financial liabilities (note 6(y))		13,837,167	1	11,405,536	-
14500	Held-to-maturity financial assets-net (note 4, 6(l) and (u), and 8)	-	-	641,595,770	22	Provisions (note 4, 6(k), (z) and (ab))		4,859,082	-	5,041,394	-
15000	Investment under equity method-net (note 4 and 6(m))	89,167,115	3	81,529,265	3	Deferred tax liabilities (note 4 and 6(ac))		1,087,641	-	858,112	-
15500	Other financial assets-net (note 4, 6(k) and (n), and 8)	2,274,636	-	2,996,034	-	Other liabilities (note 6(aa))		9,411,106	-	8,653,026	-
18500	Premises and equipment-net(note 4 and 6(p))	45,569,994	1	44,110,239	1	Total Liabilities		<u>2,875,062,241</u>	<u>91</u>	<u>2,693,155,336</u>	<u>90</u>
18700	Investment property-net (note 4 and 6(o))	1,841,957	-	2,207,123	-	Capital stock :					
19000	Intangible assets-net (note 4 and 6(q))	12,919,547	-	12,491,323	-	Common stock (note 6(ad))		140,685,719	4	140,685,719	5
19300	Deferred income tax assets (note 4 and 6(ac))	4,555,917	-	4,211,654	-	Capital surplus:(note 6(ad))		28,607,197	1	28,607,197	1
19500	Other assets-net (note 4 and 6(r))	18,562,228	1	11,546,566	-	Capital premium		1,181,491	-	1,181,491	-
						Others					
						Retained earnings:					
						Legal reserve		80,855,064	2	71,848,629	2
						Special reserve		21,738,657	1	18,069,266	1
						Undistributed earnings (note 6(ae))		30,425,964	1	30,137,931	1
						Other equity interest (note 6(ad))		(7,755,219)	-	(10,897,594)	-
						Total Equity		<u>295,738,873</u>	<u>9</u>	<u>279,632,639</u>	<u>10</u>
	TOTAL ASSETS	<u>\$ 3,170,801,114</u>	<u>100</u>	<u>2,972,787,975</u>	<u>100</u>	TOTAL LIABILITIES AND EQUITY		<u>\$ 3,170,801,114</u>	<u>100</u>	<u>2,972,787,975</u>	<u>100</u>

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD.

Statements of Comprehensive Income

For the years ended December 31, 2018 and 2017

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

		2018		2017		Change
		Amount	%	Amount	%	%
41000	Interest income(note 6(ah) and 7)	\$ 58,744,203	74	49,363,379	64	19
51000	Less: Interest expenses(note 6(ah) and 7)	(21,833,097)	(28)	(16,086,963)	(21)	36
	Net interest income	<u>36,911,106</u>	<u>46</u>	<u>33,276,416</u>	<u>43</u>	11
	Net non-interest income					
49100	Service fee and commission income(note 6(ai) and 7)	28,683,436	36	29,636,843	38	(3)
49200	Gains on financial assets or liabilities measured at fair value through profit or loss(note 6(aj))	9,392,081	12	6,390,811	8	47
49300	Realized gain on available-for-sale financial assets	-	-	496,974	1	(100)
49310	Realized gain on financial assets measured at other comprehensive income	235,646	-	-	-	100
49400	Realized gain on held-to-maturity financial assets	-	-	3,553	-	(100)
49450	Gain on derecognition of financial assets measured at amortized cost	29,600	-	-	-	100
49600	Foreign exchange gains	507,397	1	2,375,991	3	(79)
49700	Impairment losses on assets	(5,470)	-	(36,393)	-	85
49750	Proportionate share of gains from associates or joint ventures under equity method(note 6(m))	5,212,004	7	4,793,146	6	9
49800	Other net non-interest income	1,062,243	1	1,084,671	1	(2)
49815	Gain on investment property	1,087	-	2,574,711	3	(100)
49899	Public-welfare lottery payment	(2,700,000)	(3)	(2,700,000)	(3)	-
	Net revenue	<u>79,329,130</u>	<u>100</u>	<u>77,896,723</u>	<u>100</u>	2
58200	Provision for bad debt expenses, commitment and guarantee liability provision(note 6(k))	<u>(4,009,560)</u>	<u>(5)</u>	<u>(2,616,224)</u>	<u>(3)</u>	53
	Operating expenses:					
58500	Employee benefits expenses(note 6(ak) and (am))	(22,414,647)	(28)	(22,870,938)	(29)	(2)
59000	Depreciation and amortization expenses(note 6(al))	(2,412,885)	(3)	(2,225,503)	(3)	8
59500	Other general and administrative expenses(note 6(an))	(16,465,641)	(21)	(16,096,416)	(21)	2
	Total operating expenses	<u>(41,293,173)</u>	<u>(52)</u>	<u>(41,192,857)</u>	<u>(53)</u>	-
61001	Net income before tax from continuing operations	34,026,397	43	34,087,642	44	-
61003	Income tax expenses(note 6(ac))	<u>(4,346,321)</u>	<u>(6)</u>	<u>(4,066,191)</u>	<u>(5)</u>	(7)
	Net income	<u>29,680,076</u>	<u>37</u>	<u>30,021,451</u>	<u>39</u>	(1)
65000	Other comprehensive income:					
65200	Items that will not be reclassified subsequently to profit or loss					
65201	Remeasurement gains related to defined benefit plans	266,635	-	205,884	-	30
65205	Changes in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	1,112,346	2	(1,105,808)	(1)	201
65204	Unrealized losses from investments in equity instruments measured at fair value through other comprehensive income	(133,778)	-	-	-	-
65207	Proportionate share of other comprehensive income (losses) from subsidiaries, associates or joint ventures under the equity method	51,435	-	(58,329)	-	188
65220	Income tax related to items that will not be reclassified to profit or loss	(36,290)	-	(31,138)	-	(17)
	Subtotal	<u>1,260,348</u>	<u>2</u>	<u>(989,391)</u>	<u>(1)</u>	227
65300	Items that are or may be reclassified subsequently to profit or loss					
65301	Exchange differences of overseas subsidiaries' financial reports translation	1,994,308	3	(4,605,469)	(6)	143
65302	Unrealized valuation gains on available-for-sale financial assets	-	-	1,154,805	1	(100)
65308	Unrealized gains from investment in debt instruments measured at fair value through other comprehensive income	269,662	-	-	-	-
65307	Proportionate share of other comprehensive (losses) income from subsidiaries, associates or joint ventures under the equity method	(401,965)	(1)	852,824	1	(147)
65320	Income tax related to items that are or may be reclassified to profit or loss	(50,343)	-	184,365	-	(127)
	Subtotal	<u>1,811,662</u>	<u>2</u>	<u>(2,413,475)</u>	<u>(4)</u>	175
65000	Other comprehensive gains (losses) (net amount after tax)	<u>3,072,010</u>	<u>4</u>	<u>(3,402,866)</u>	<u>(5)</u>	190
66000	Total comprehensive income	<u>\$ 32,752,086</u>	<u>41</u>	<u>26,618,585</u>	<u>34</u>	23
	Earnings per share (unit: NT dollars) (note 6(ag))	<u>\$ 2.11</u>		<u>2.13</u>		

See accompanying notes to financial statements.

(English Translation of Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD.

Statements of Changes in Stockholders' Equity
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars)

	Capital stock	Retained earnings			Other equity interest				Change in designated as financial liabilities measured at fair value through profit or loss attributable to credit risk	Total equity
	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences of overseas subsidiaries' financial reports translation	Unrealized losses on financial assets measured at fair value through other comprehensive income	Unrealized (losses) gains on available-for-sale financial assets		
Balance at January 1, 2017	\$ 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)	-	-	-	-	-
Special reserve appropriated	-	-	6,927,649	-	(6,627,263)	-	-	-	-	-
Stock dividends of common share	9,559,984	-	-	-	(9,559,984)	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
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
Effects of retrospective application of new standards	-	-	-	-	513,783	(804)	(670,662)	973,883	-	816,200
Balance at January 1, 2018 after adjustments	140,685,719	29,788,688	71,848,629	18,069,266	30,651,714	(8,501,565)	(670,662)	-	(1,422,950)	280,448,839
Net income	-	-	-	-	29,680,076	-	-	-	-	29,680,076
Other comprehensive income (losses)	-	-	-	-	279,407	1,879,320	(199,063)	-	1,112,346	3,072,010
Total comprehensive income (losses)	-	-	-	-	29,959,483	1,879,320	(199,063)	-	1,112,346	32,752,086
Appropriation and distribution of retained earnings:										
Legal reserve appropriated	-	-	9,006,435	-	(9,006,435)	-	-	-	-	-
Special reserve appropriated	-	-	-	3,669,391	(3,669,391)	-	-	-	-	-
Cash dividends of common share	-	-	-	-	(17,462,052)	-	-	-	-	(17,462,052)
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(47,355)	-	47,355	-	-	-
Balance at December 31, 2018	\$ 140,685,719	29,788,688	80,855,064	21,738,657	30,425,964	(6,622,245)	(822,370)	-	(310,604)	295,738,873

Note : For the years ended December 31, 2018 and 2017, the compensations of employees were \$16,997 and \$17,083, respectively, which were deducted from the statements of comprehensive income.

See accompanying notes to financial statements.

CTBC BANK CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash Flows from Operating Activities:		
Net Income Before Tax	\$ 34,026,397	34,087,642
Adjustments:		
Income and expenses items:		
Depreciation expense	1,813,323	1,720,768
Amortization expense	611,380	527,564
Provision for expected credit loss/ bad debt expenses, commitment and guarantee liability provision	4,009,560	2,616,224
Net gains on financial assets or liabilities measured at fair value through profit or loss	(1,425,236)	(2,868,350)
Interest expense	21,833,097	16,086,963
Interest income	(58,744,203)	(49,363,379)
Dividend income	(393,499)	(350,575)
Net change in other provisions	4,114	(698,745)
Proportionate share of gains from subsidiaries, associates and joint ventures under the equity method	(5,212,004)	(4,793,146)
Losses on disposal and retirement of premises and equipment	10,748	25,423
Gain on disposal of investment properties	(4,072)	(2,578,315)
Loss on disposal of intangible assets	6,267	493
Gain on disposal of equity investment under cost method	-	(47,535)
Impairment losses on financial assets	3,157	8,814
Impairment losses on non-financial assets	2,313	27,579
Other adjustments	840,010	(2,484,757)
Subtotal of income and expense items	(36,645,045)	(42,170,974)
Changes in Operating Assets and Liabilities:		
Net Changes in Operating Assets:		
Decrease in due from Central Bank and call loans to banks	6,190,134	564,252
(Increase) decrease in financial assets measured at fair value through profit or loss	(44,304,179)	51,955,098
Increase in financial assets measured at fair value through other comprehensive income	(46,656,440)	-
Decrease in investments in debt instruments at amortized cost	59,872,415	-
Decrease in hedging financial assets	102,798	279,332
Increase in receivables	(34,740,026)	(14,269,605)
Increase in loans	(149,252,199)	(95,758,301)
Decrease in available-for-sale financial assets	-	355,436,822
Increase in held-to-maturity financial assets	-	(517,877,964)
Increase in other financial assets	(390,176)	(897,795)
Net Changes in Operating Assets	(209,177,673)	(220,568,161)
Net Changes in Operating Liabilities:		
Increase in deposits from Central Bank and other banks	9,531,796	4,954,830
Increase (decrease) in financial liabilities measured at fair value through profit or loss	19,470,250	(28,521,710)
Increase (decrease) in hedging financial liabilities	167,330	(286,734)
Increase in payables	4,401,127	1,681,711
Increase in deposits and remittances	140,284,228	226,280,788
Increase in other financial liabilities	1,601,040	2,858,876
Decrease in employee benefits reserve	(151,258)	(248,986)
Net Changes in Operating Liabilities	175,304,513	206,718,775
Net Changes in Operating Assets and Liabilities	(33,873,160)	(13,849,386)
Sum of Adjustments	(70,518,205)	(56,020,360)
Cash Used in Operating Activities	(36,491,808)	(21,932,718)
Interest received	57,368,145	47,848,517
Dividends received	942,648	2,140,939
Interest paid	(18,970,188)	(14,207,066)
Income taxes paid	(4,838,785)	(3,845,116)
Net Cash Flows (Used in) Provided by Operating Activities	(1,989,988)	10,004,556

(English Translation of Financial Statements Originally Issued in Chinese)
CTBC BANK CO., LTD.

Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(Expressed in Thousands of New Taiwan Dollars)

	2018	2017
Cash Flows from Investing Activities:		
Proceeds from disposal of financial assets at cost	\$ -	133,697
Proceeds from capital reduction of financial assets at cost	-	50
Purchase of financial assets under equity method	(795,471)	(15,263,115)
Proceeds from capital reduction of investments accounted for using equity method	-	5,190,865
Purchase of premises and equipment	(2,352,556)	(2,259,995)
Disposal of premises and equipment	2,791	10,029
Purchase of intangible assets	(362,308)	(462,877)
Disposal of investment properties	10,239	4,411,953
(Increase) decrease in other assets	(7,918,054)	2,908,258
Net Cash Flows Used in Investing Activities	<u>(11,415,359)</u>	<u>(5,331,135)</u>
Cash Flows from Financing Activities:		
Decrease in due to Central Bank and other banks	(373,716)	(479,239)
Issuance of financial debentures	-	1,000,000
Repayments of financial debentures	(8,900,000)	-
Increase in securities sold under repurchase agreements	7,496,708	13,962,768
Increase in financial liabilities designated at fair value through profit or loss	6,914,925	5,372,640
Increase in payables	85,418	4,555
Increase in other liabilities	758,080	4,247,061
Cash dividends paid	(17,462,052)	-
Net Cash Flows (Used in) Provided by Financing Activities	<u>(11,480,637)</u>	<u>24,107,785</u>
(Decrease) increase in Cash and Cash Equivalents	<u>(24,885,984)</u>	<u>28,781,206</u>
Cash and Cash Equivalents at the Beginning of Period	<u>188,819,462</u>	<u>160,043,994</u>
Cash and Cash Equivalents at the End of Period	<u>\$ 163,933,478</u>	<u>188,825,200</u>
Composition of Cash and Cash Equivalents:		
Cash and cash equivalents recognized in balance sheet	\$ 80,277,801	78,962,339
Due from Central Bank and call loans to bank which meet IAS 7 definition of cash and cash equivalents	82,173,801	109,862,861
Securities purchased under resell agreements which meet IAS7 definition of cash and cash equivalents	1,481,876	-
Cash and Cash Equivalents at the End of Period	<u>\$ 163,933,478</u>	<u>188,825,200</u>

See accompanying notes to financial statements.



CTBC BANK