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ANNUAL REPORT 2017

COTA COMMERCIAL BANK



COTA Commercial Bank



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1 > To Our Shareholders



1. To Our Shareholders

1-1. Year 2018 Business Report

1-1-1. Financial Environment

According to the International Monetary Fund (IMF), the recovery of global economic activity continues increasing. The growth rate of the global economy was 3.2% in 2016. It is the lowest level since the global financial crisis and the growth rate of the global economy rose to 3.6% in 2017, it is expected to rise to 3.7% in 2018.

The overall global economy has recovered steadily in recent years. All economic indexes have performed well, but as Taiwan is an export-oriented country, it is deeply influenced by the global economy. Although the global economy is expected to grow steadily, there is still some concerns exist, especially the FED imminent plan to reduce the scale of its balance sheet. The rapid expansion of assets caused by QE implemented to save the economy has gradually recovered. It also had important implications for global financial markets, in addition, Taiwan must face the concealed situation including of difficult to reach consensus on the Brexit negotiations in the EU, protectionism and high geopolitical conflicts are potential risks to the global economy.

In terms of domestic financial markets, even though Central Bank of the Republic of China (Taiwan) decided to maintain unchanged on the interest rate policy, but the money market still tighten caused by the international funds outflow greatly, the growth rate of the domestic economy showed 2.58% for year 2017 released by "Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C". Outlook for the new coming year, the business environment of the financial institutions is still uncertainty. COTA Bank will adopt flexibility business strategies, strictly apply to legal compliance and continuously expand business under the current niche businesses.

1-1-2. Organization Development

Insurance Agency Department founded and continuously provided comprehensive insurance protection, wealth management services and after-sales services to customers.

1-1-3. Business Plans and Strategies Performance

1-1-3-1. Main Achievements

- The new building of the Fengyuan Branch operated.
- Insurance Agency Department founded.
- IC ATM Card cross border withdrawal/debit launched.
- Capital increase by cash of TWD1 billion to improve capital operating efficiency.
- New revision mobile banking "COTA Mobile Plus" launched.
- B2B banking business launched.
- "AML / Compliance Blacklist Database Compliance Link System" for name verification created.

1-1-3-2. Budget Execution

As of Dec. 31, 2017, our deposits balance with sum of TWD144.3 billion (excluding deposits from banks) increased by TWD4.6 billion compared with previous year; our loans balance with sum of TWD116.7 billion increased by TWD2.8 billion compared with previous year.

COTA Bank would be committed to provide diversified products to satisfy the requirement of the customer, strengthen the Fintech services, expansion e-banking services, to develop new financial products, to achieve better structure of quality between deposits and loans and higher multi-source income.

Main business budget executions reported as follows:

Final account of average deposits balance amounted to TWD140.9 billion, achieved 100.64% budgeting goal of TWD140 billion.

Final account of average loans balance amounted to TWD116.3 billion, achieved 101.99% budgeting goal of TWD114 billion.

Final account of trust assets balance amounted TWD4.63 billion, achieved 97.5% budgeting goal of TWD4.75 billion.

1-1-3-3. Financial Structure and Profitability

Our year 2017 solo earnings before income-tax figured as TWD1,062,681 thousand turned into EPS before income-tax as TWD1.54, consolidated earnings before income-tax figured as TWD1,063,836 thousand turned into EPS before income-tax as TWD1.54. While earning after income-tax figured as TWD917,282 thousand, turned into EPS after income-tax as TWD1.33. Our BIS ratio maintained at a level of 12.07% and net worth of per share stood at TWD13.5. Our non-performing loan coverage ratio to 663.58%. Overdue loan ratio decreased to 0.24%. Nevertheless, we would constant improve business effectiveness and risk control to boost operation capability and competitive edge.

1-1-3-4. Research and Development

To keep in line with critical issues of international and domestic political and economic environments and demands of banking business expansion, our H.O. departments compiled assorted analyses and reports regarding financial situations, banking business development, industrial insight and tendency periodically or non-periodically. Such analyses and reports would circulate to our staff for reference and application through our electronic official document system to prompt business development.

1-2. Year 2018 Business Plans Outline

We have always held the spirit of "Integrity, Innovation, Affability, and Service", and fulfill compliance and legal affairs on business management. Meanwhile, strive more deeply rooted in corporate culture to satisfy the requirement of the customer and intensify managerial strength. Main business plans are described as follows.



1. To Our Shareholders

1-2-1. Business Operating Policy

- Fulfill compliance and legal affairs on business management, strive more deeply rooted in corporate culture, in the meantime, strengthen the capital structure and intensify managerial strength, achieve the risk management and corporate governance, promote medium-term and long-term risk response ability.
- Continuously improve the function of e-banking, close up to the requirement of customers financial as a goal, improve customer willingness to use and the ration of penetration.
- In accordance with the authority's institution to promote the development of financial technology and regulatory amendments, expand the digitization of the business functions; continue to develop electronic access service system and prove more convenience and variety services.
- Strengthen the risk control, implement reasonable pricing and uphold the 5P principle of credit, maintain outstanding credit asset quality, and improve capital efficiency.
- Continuously plan the activated, electronic and paperless of banking services, to guide into virtual reality service model, to improve service efficiency.
- In accordance with the development of Bank 3.0. To develop of potential customers by the methods of e-banking, try to find excellent target customer, providing exclusive benefits and services.
- At any time to review and improve business regulations, excellence the operation of the adjustment under the simplified operation and internal control, improve service quality and operation efficiency.
- Strengthen staff training and education; improve the professional of the staff in order to develop of financial technology.

1-2-2. Business Target

1-2-2-1. Main Operating Volume

Unit: TWD thousand: %

Main Business	Budget of Year 2018	Result of Year 2017	Increase volume	
			Amount	%
Average deposits	145,000,000	140,893,427	4,106,573	2.91
Average loans	118,000,000	116,265,661	1,734,339	1.49
Wealth management (Trust asset)	4,673,020	4,632,514	40,506	0.87

1-2-2-2. Schemed Targets

- Actively develop the digital financial business, simplify the operation process to reduce costs, improve the Bank's customer structure, and attract young customers.
- Continually holdup the development of new financial products and trace the condition of other bank and the relationship between ourselves and customers. According to customer demand to provide timely development the possibility of new financial products, in order to increase the extensiveness of business and the intensity of profit.
- Continuously strengthen collaboration with high reputation fund management companies to provide customers with funds production selection and configuration targets to enhance customers' trust in the Bank.
- Improve the proportion of demand deposits and reduce capital costs, operating ability and profitability.
- Propel SME loans and considering customer needs, expand customer base and economic scale, improve the ratio of the market share of juridical person.

- To create the most appropriate business model to enhance the general competitiveness, to create the best profit in response to external competition and regulatory changes in the environment.
- In accordance with the transaction habits of customer to provide financial product by the requirement for the customer, meanwhile, to establish the database system to analyze the relationship between customer's and COTA Bank.

1-3. Long-term Development Strategy

- Process Compliance and Legal Affairs of accomplishment business management, strive more deeply rooted in corporate culture and become the important foundation of continuous operations.
- Strengthen the capital structure and intensify managerial strength, achieve the risk management and corporate governance, promote medium-term and long-term risk response ability.
- To improve continually the function of e-banking, close up to the requirement of customers financial as a goal, improve customer willingness to use and the ration of penetration.
- Strengthen the capabilities of the risk control to enhance asset quality, and execute regularly to review consumer credit business in the operation status and asset quality, then, adjusting the pricing and credit policy of the product at any time, meanwhile, establish the management structure of the bank's business as the result reflect product performance.
- Continuously strengthen staff training and education, to educate the seed staff of the e-bank business to familiarize with the system operation, and strengthen the ability of sell skill of digital financial services for the branch staff.
- Continuously maintain the smooth and stability of the bank's funds transfer and the relationship of the correspondent business, in addition to, increase the counterparty of financial commodities expands funding sources and reduces capital cost.
- Considering rapid change of economic and financial environment, COTA necessary to strengthen the handling of all operational test and review and correct improvements in due course. To formulate response measures and amend internal regulations or operating procedures on the basis of changes in laws and regulations or business environment. In accordance with the market and economic conditions, COTA adjusted our business strategies to strengthen our competitiveness.
- Base on sustain business strategy of strong capital and steady profitability to strengthen capital quality, COTA actively search for out for excess funds and allocate with the best of the assets to create income optimization the use of bank capital.
- At any time to review and improve business regulations, excellence the operation of the adjustment under the simplified operation and internal control, improve service quality and operation efficiency.
- Enhance staff training and education to improve proficiency and ability for encountering development of Fintech.
- Continually redeploy service locations to enlarge value of branch channels and multiple sources of profit.
- Continually commit to public benefit activities and fulfill social responsibility.

1-4. Impact of Competitive, Regulative and Banking Environments

In the digital environment, the business of traditional financial institutions is no longer monopolized by banks, the new-style financial services include Crowd funding, and online lending platforms, third-party payments, etc. have become competitors of traditional banks. At present, domestic banks have undergone several transformations in areas such as organization, access, payment, business and product innovation, digital talent, and technology finance. However, at this stage, it is still faced with such problems as large technological changes, high input costs, challenges of competing in different industries and financial science and technology, restrictions on financial regulations and supply of digital talents. Digital finance professionals with cross-disciplinary, multi-professional, and digital thinking network of financial institutions have become the requirement for bank's HR Dept. However, the

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requirement limited by the current education system, the cultivation of digital talents is still in the process of exploration and planning. Existing financial staffs and financial professionals do not necessarily have community management or technical capabilities. How to recruit and train sufficient quality talents for staff has become the important direction for financial institutions in the future. Hence, COTA Bank will strengthen and training continuously on-the-job for all staffs to enhance the skills of employees in financial technology so as to become the bank's support for the development of financial technology.

Overviewed the banking laws and regulations environment, COTA Bank has a greater impact on the compliance "Regulations Governing Domestic Branches of Financial Institutions". The amend terms are as follow: the average before-tax return on equity in the three years prior to application has been reduce from exceeds 1.5 times of average ROE of domestic banks to 1 time, applying for a bank branch is not subject to 2 restrictions per year, Financial institutions that apply for the establishment of additional branch should submit the following documents in May or November each year to the competent authority for approval. The flexibility of the application for profit-making can be applied at all times to those who wish to apply for branches in rural areas without being bound by the application time. This will increase the number of financial institutions to be added. The flexibility of branch offices promotes the popularity of financial services. In addition, Taiwan will accept assessment by the Asia-Pacific anti-money laundering organization (APG) in the fourth quarter of 2018, FSC require all banks to complete the money-laundering risk assessment operations and anti-money laundering and countering terrorism control plan by the end of September 2016. In accordance with the regulations, COTA bank has confirmed that the identity of the customer and the transaction record of the customer's transactions, meanwhile, and the continued monitoring of transactions to strengthen anti-money laundering and counter terrorism in order to improve the internal control and audit system.

In the future, we will continue to uphold the business strategy of steady growth and also coupled with the laws and regulations, technology progress, and financial policy openness, to develop diversified financial products, to innovate financial services, to construct more comprehensive services network so as to grasp developing opportunity, enhance profitability and expand the scale of operation.

1-5. Corporate Rating

Category	Rating Agent	Rating		Outlook	Released Date
		Long-term	Short-term		
Local	Taiwan Rating Corporate	twBBB+	twA-2	Stable	Dec.26, 2017

Heading for 2018 new coming year, COTA Bank will continue to deepen and expand various business areas and actively develop new financial commodities and enhanced access value to meet customers' diverse financial needs. All of our staff would sustain the enthusiasm to fulfill service motto of "Integrity, Innovation, Affability, and Service" for the purpose of shareholders, customers, employees of the rights to expand the scale of operation and profitability. At last, we would like to express sincere appreciations to our shareholders, directors, and the elites in all fields. We look forward to obtaining continued support and advice from all of you.

Chairman *Song-Yie Liao*

2 > Corporate Profile



2. Corporate Profile

2-1. Bank Features

Bank Name	COTA Commercial Bank, Ltd.
Chairman	Song-Yie Liao
President	Jung-Hsien Chiu
Date of Business Registration	Jan. 01, 1999
Date of Inauguration	Jan. 01, 1999
Location of Head Office	No.32-1, Gongyuan Road, Taichung City 400, Taiwan, R.O.C.
Number of Employee	1,141
Paid-in Capital	TWD7,625,523,040
Capital Shares	Common Stock in 762,552,304 Shares



2-2. Historical Highlights

COTA Bank was formerly named “Liability Taichung Third Credit Cooperative”. Founded in 1915, we have consistently conveyed the corporate philosophy featuring, well-sustained to combat in the financial environment characterized by severe competition, as “Integrity, Innovation, Affability and Service”, in response to the increasingly competitive financial market. In accordance with the promulgation of “Regulations and Criteria Governing Reorganization of Credit Cooperative into Commercial Banks”, COTA Bank started the reorganization task and launched reorganization in Dec. 1995. On Jul. 27, 1998, COTA Bank was officially approved by Ministry of Finance to be transformed into “COTA Commercial Bank”.

In 2005, COTA Bank invited Fengyuan Credit Cooperative to consider a merger proposal for mutual benefits to enhance competitive capacity by expanding business scale. After sincere bilateral negotiation and consideration, COTA Bank decided to wholly acquire Fengyuan Credit Cooperative. Approved by shareholders’ meeting of both parties, Fengyuan Credit Cooperative was formally merged into COTA Bank on Jan. 01, 2006.

Outlook for the future, COTA Bank is determined to become a full-array commercial bank in spite of quick-changing financial market. Under the support of shareholders and members of board, and the endeavor of all staffs, introduce a broader range of online application service. We are committed to providing all-aspect services for our customers by constant business growth, scale expansion and product diversification.

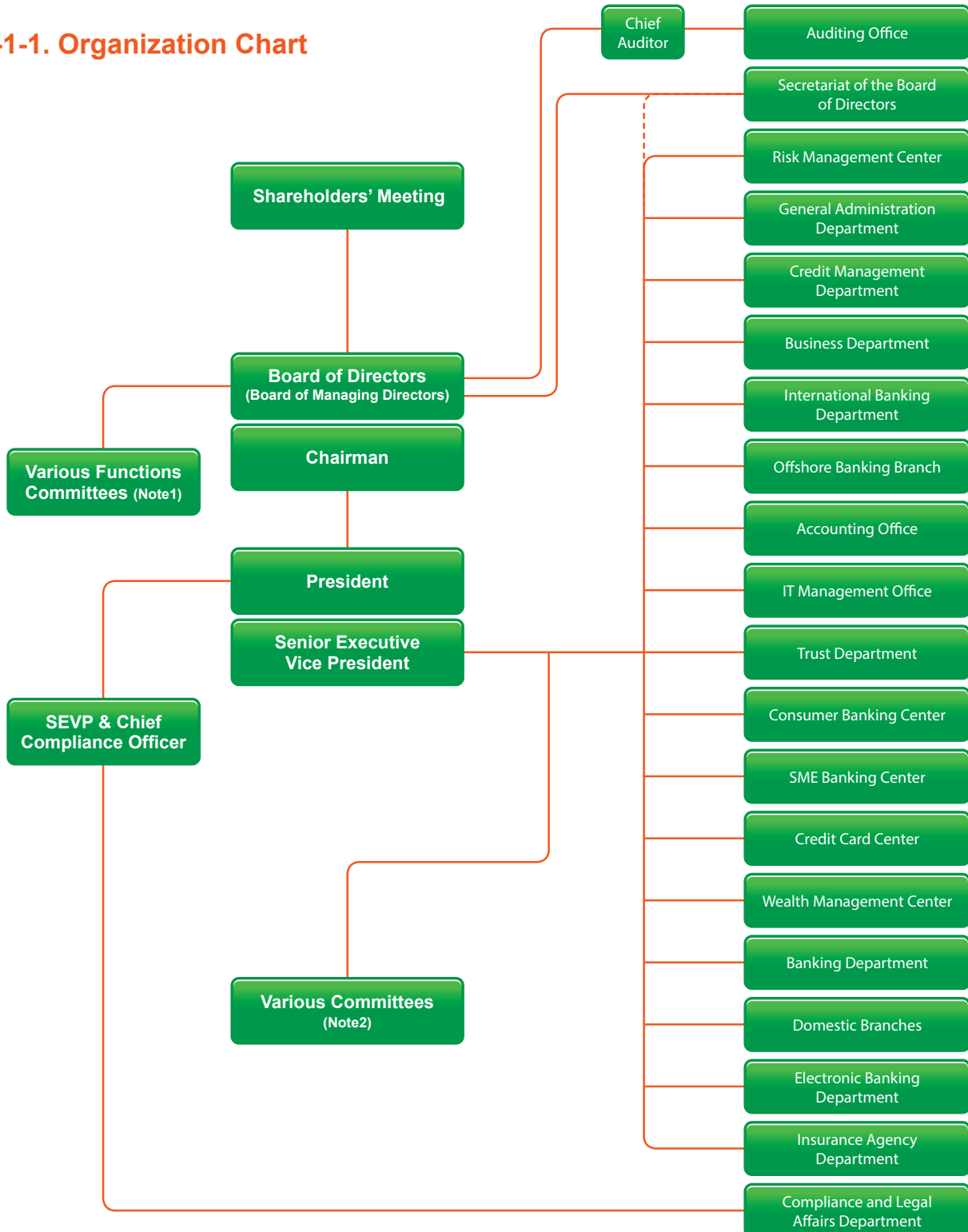
3 > Corporate Governance



3. Corporate Governance

3-1. Organization

3-1-1. Organization Chart



NOTE1. Audit Committee, Remuneration Committee, Nomination of Directors Committee, etc.

NOTE2. Loan Committee, Personnel Appraisal Committee, Trust Assets Screening Committee, Financial Product & Regulation Committee, Asset & Liability and Risk Management Committee, Security Council supervision Committee, TWD Securities Investment Committee, Foreign Securities Investment Committee, etc

3-1-2. Major Business of Each Division

3-1-2-1. Secretariat of the Board of Directors

Taking charge of such key tasks of the Board of the Directors and official seal keeping, bank affairs, corporate governance, convening of shareholders' meeting, the Board of the directors and related meetings, election for director and supervisor, etc.

3-1-2-2. General Administration Department

Taking charge of bank's official seals, documentation, construction and repair, procurement, property control, public relations, general affairs, personnel affairs, organization management, and affairs not designed to other departments.

3-1-2-3. Credit Management Department

Taking charge of planning, review and recheck of all loan affairs of the bank, credit investigation, promotion and management for corporate banking, etc.

3-1-2-4. Business Department

The Department takes charge of deposits, remittance, affairs of the cashier, warehousing, custody, agency, investment, and safe protection.

3-1-2-5. International Banking Department

Taking charge of the bank's foreign currency funds management and foreign exchange related operation, planning, administration and promotion.

3-1-2-6. Offshore Banking Branch

Taking charge of the offshore banking related operation, management and investment.

3-1-2-7. Audit Office

Auditing over bank's business, accounting, finance, bank affairs, and reserved inventory.

3-1-2-8. Accounting Office

Taking charge of bank's accounting, statistics, calculate annual revenues, and analyze financial statement.

3-1-2-9. IT Management Office

Taking charge of the bank's IT related planning automation, development, operation and management.

3-1-2-10. Banking Department

Engaging in the commercial bank services (Approved by the Central Bank of R.O.C.) as well as trust banking services.

3-1-2-11. Trust Department

Planning, promoting, and managing the trust banking related affairs.

3-1-2-12. Risk Management Center

Taking charge of formulation and revise for risk management policies, plan and design for risk management system, establishment and integration for risk management guidelines, monitoring the performance and others; the Bank's non-performing loans related planning, tracing and management.

3-1-2-13. Consumer Banking Center

Taking charge of planning, review, dunning on overdue receivables, credit investigation, recheck of all loan affairs of the consumer and promote financial products.

3-1-2-14. SME Banking Center

Taking charge of planning, review, dunning on overdue receivables, credit investigation, recheck of all loan affairs of the SME and promote financial products.

3-1-2-15. Credit Card Center

Taking charge of bank's credit card affairs related planning, promotion and management.

3-1-2-16. Wealth Management Center

Taking charge the business of the Wealth Management, planning the sales for non-wealth management customers, and managing financial representatives.

3-1-2-17. Compliance and Legal Affairs Department

Taking charge the planning, management and implement of the regulatory compliance system and legal affairs in regulatory compliance office. Taking charge the prevention of money laundry and fighting against terrorism in anti-money-laundry office.

3-1-2-18. Electronic Banking Department

Taking charge the planning and promotion of the electronic banking channel.

3-1-2-19. Insurance Agency Department

Taking charge the planning, marketing, training and managing sales of the life and property insurance agency business.

Above-mentioned department, office or center may, based on business need, propose for Board of Directors' resolution to establish, dismiss or combine. Units of H.O. may institute north or south regional centers and their joint office.

3. Corporate Governance

3-2. Major Information of Directors, Supervisors, Executives and the Principal Officers

3-2-1-1. List of Directors and Supervisors

As of Dec. 31, 2017 Shares Held (%)

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Chairman	R.O.C	Song-Yie Liao	Jan.12, 2018 (Director Dec.23,2017)	3	May. 25, 2005	52,761,419	6.9191	52,761,419	6.9191	1,356,182	0.1778	-	-	Department of Economics, Hosei University of Tokyo, Japan Chairman of Chuan Cheng Hat Co., Ltd.	Director of Chuan Cheng Hat Co., Ltd. Director of CCH Plus Inc. Supervisor of Opus High Technology Corporation Supervisor of Japena Enterprise Co. Ltd. Independent Director of Formosan Union Chemical Corp.
Managing Independent Director	R.O.C	Kun-Hsien Lin	Jan.12, 2018 (Director Dec.23,2017)	3	Dec. 29, 2014	3,201,584	0.4199	1,101,584	0.1445	-	-	-	-	Collage of Law, National Taiwan University Master's Program, Graduate Institute of Financial and Economic Law, Feng Chia University Director of Taichung BAR Association Members of Taiwan Bar Committee on the Discipline Chairman of Taichung NTU Alumni Association	Director of Kun Her Industrial Co., Ltd. Manager of Chan Hsin Law Firm Committee Chairman of Association for Victims Support Taichung Office Independent Director of Yung Shin Global Holding Co. Ltd. Independent Director of Yung Zip Chemical Ind. Co., Ltd. Independent Director of Yung Shin Pharmacy Ind. Co., Ltd. (Representative of a legal entity)
Managing Director	R.O.C	Ying-Che Chang	Jan.12, 2018 (Director Dec.23,2017)	3	Jan. 1, 2002	2,659,060	0.3487	2,659,060	0.3487	33,630	0.0044	-	-	Department of International Business, Feng Chia University President of COTA Bank Chairman of COTA Bank Insurance Broker Co., Ltd. (Representative of a legal entity)	Director of COTA Culture and Education Foundation
Managing Director	R.O.C	Xian-De Lai	Jan.12, 2018 (Director Dec.23,2017)	3	May 25, 2005	3,688,102	0.4837	3,688,102	0.4837	135,015	0.0177	-	-	Department of Public Finance and Taxation, National Chung Hsing University President of Tung Yang Business Co., LTD.	Chairman of Tung Yang Business Co., Ltd. Chairman of Tung Yang Investment Co., Ltd. Director of Yuan Sheng Plastic Inc. Managing Director of Taiwan Flour Mills Associate Director of Hsiuping University of Science and Technology
Managing Director	R.O.C	Chuan Cheng Hat Co., Ltd.	Jan.12, 2018 (Director Dec.23,2017)	3	Dec. 29, 2014	13,377,618	1.7543	13,377,618	1.7543	-	-	-	-	-	-
		Chuan Cheng Hat Co., Ltd. Assigned Representative: Min-Chang Lin				182,607	0.0239	182,607	0.0239	328,622	0.0431	-	-	Department of General Business, Shin Min Commercial & Industrial Vocational Senior High School Branch General Manager of COTA Bank	-
Independent Director	R.O.C	Po-Yao Chi	Dec.23, 2017	3	Jun. 20, 2008	2,719,908	0.3567	2,719,906	0.3567	579,234	0.0760	-	-	Department of Accounting, Soochow University Taichung Factory Director of Cheng Loong Corporation	Director of Ming Foong Plastic Co., Ltd. Director of Ko Loong Industry Co., Ltd.
Independent Director	R.O.C	Tsung-Ta Kuo	Dec.23, 2017	3	Dec.23, 2017	-	-	-	-	-	-	-	-	Graduate Institute of Accounting and Public Finance, Feng Chia University	Chief Accountant of Chien-Yao CPAs Independent Director of Team Young Technology Co., Ltd.
Director	R.O.C	Chun-Chieh Wang	Dec.23, 2017	3	Dec.29, 2014	10,741,068	1.4086	10,741,068	1.4086	-	-	-	-	Mingdao High School	Chairman of Mingdao Private High School Director of Hon Dao senior citizen welfare foundation

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	R.O.C	Chien-Chung Lai	Dec.23, 2017	3	Dec.23, 2017	3,400,459	0.4459	3,400,459	0.4459	2,664,064	0.3494	-	-	Department of French, Chinese Culture University Overseas Chinese Affairs Committee of Overseas Community Affairs Council, R.O.C. President of The Council of Taiwan Chambers of Commerce In Vietnam Vice President of The Council of Asia Taiwanese Chambers Of Commerce President of Chiao Sang Footwears Inc. Supervisors of Lu Yueh Enterprise Co., Ltd.	Advisory Committee of Overseas Community Affairs Council, R.O.C. Consultant of World Taiwanese Chambers of Commerce Advisory Committee of Asia Taiwanese Chambers Of Commerce Consultant of Taiwan Association of Machinery Industry—Machinery for Shoe and Education Foundation Director of Overseas Taiwan Commercial Travel Agency Ltd Co.
Director	R.O.C	Chi-Peng Yang Representative: Chia De Development and Investment Co., Ltd.	Dec.23, 2017	3	Dec.29, 2014	13,612,658	1.7851	13,912,658	1.8245	102,472	0.0134	-	-	Associate's Degree Student of Tunghai University Executive Master of Business Administration Program Director of Li Gong Investment Co., Ltd. Supervisor of Ju Heng Construction Co., Ltd.	Branch General Manager of COTA Bank President of the Taichung City Zihshou Charity Merit Association
		Chia De Development and Investment Co., Ltd.				985,426	0.1292	985,420	0.1292	-	-	-	-	-	-
Director	R.O.C	Kang-Wei Chang Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23, 2017	3	Dec.23, 2017	1,024,310	0.1343	1,024,310	0.1343	-	-	-	-	Master of Science Degree National Tsing Hua University Department of Chemical Engineering	Chairman of Far Eastern Air Transport Corp. (Representative) Director of Geda Design Co., Ltd. Chairman of Huaer Investment Co., Ltd. Chairman of Fusan Co., Ltd. Chairman of HuaYi Leasing & Finance Co., Ltd. (Representative) Director of Huafu Construction Co., Ltd. (Representative) Director of Bode Development Co., Ltd. (Representative) Director of Hungpan Development Co., Ltd. (Representative) Chairman of Huapeng Development Co., Ltd. (Representative) Director of Huafu International Entertainment Co., Ltd. Director of Jin Yu Hua Investment Co., Ltd. Chairman of Gangjun Investment Co., Ltd. Director of Hanyang Construction Co., Ltd. (Representative) Director of Huafu Recreation Co., Ltd. (Representative) Director of Celebrity Tours Co., Ltd. (Representative) Director of Minghan Construction & Development Co., Ltd. (Representative) Director of Huaxi Co., Ltd. (Representative) Director of Huafu Land Development Co., Ltd. (Representative) Chairman of Fuli Investment Co., Ltd. Chairman of Huajiu Investment Co., Ltd. Chairman of Huasan Investment Co., Ltd. Chairman of Huacheng Development Co., Ltd. (Representative) Director of Hualiu Investment Co., Ltd. Chairman of Huaba Investment Co., Ltd. Chairman of Huaqi Investment Co., Ltd. Director of Huafu Parking Co., Ltd.

3. Corporate Governance

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	R.O.C	Chin-Chih Tseng Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	915,806	0.1201	915,806	0.1201	-	-	-	-	Master of Science Degree National Tsing Hua University Department of Chemistry Chief Operating Officer of Far Eastern Air Transport Corp. President of Leshi Co., Ltd.	Director of Far Eastern Air Transport Corp. (Representative) Chairman of Yuanxing Tours Co., Ltd. (Representative) Chairman of Zhanheng Investment Co., Ltd. Chairman of Yaojie Investment Co., Ltd. Chairman of Huaifu Construction Co., Ltd. (Representative) Chairman of Lefeng Energy Technology Co., Ltd. (Representative) Supervisor of Huapeng Development Co., Ltd. (Representative) Chairman of Huaifu International Entertainment Co., Ltd. Director of Tachia Yung Ho Machine Industry Director of Hanyang Construction Co., Ltd. (Representative) Chairman of Huaifu Recreation Co., Ltd. (Representative) Chairman of Celebrity Tours Co., Ltd. (Representative) Chairman of Minghan Construction & Development Co., Ltd. (Representative) Chairman of Yexiang Investment Co., Ltd. Chairman of Huaxi Co., Ltd. (Representative) Chairman of Hufu Land Development Co., Ltd. (Representative) Supervisor of Fuli Investment Co., Ltd. Supervisor of Huajiu Investment Co., Ltd. Chairman of Yuanxiang Construction Co., Ltd. (Representative) Chairman of Leqi Investment Co., Ltd. (Representative) Supervisor of Huacheng Development Co., Ltd. (Representative) Director of Huayu International Entertainment Co., Ltd. (Representative) Supervisor of Huaba Investment Co., Ltd. Supervisor of Huaqi Investment Co., Ltd. Chairman of Huaifu Parking Co., Ltd.
Director	R.O.C	Ching-Wen Cheng Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	1,297	0.0002	1,297	0.0002	-	-	-	-	Chinese Junior College of Industrial and Commercial Management Deputy Chairman of Far Eastern Air Transport Corp.	Director of Far Eastern Air Transport Corp. (Representative) Director of Yuanxing Tours Co., Ltd. (Representative) Director of Lefeng Energy Technology Co., Ltd. (Representative) Director of Huapeng Development Co., Ltd. (Representative) Director of Jin Yu Hua Investment Co., Ltd. Director of Gangjun Investment Co., Ltd. Director of Huaxi Co., Ltd. (Representative) Director of Hufu Land Development Co., Ltd. (Representative) Director of Fuli Investment Co., Ltd. Director of Huajiu Investment Co., Ltd. Director of Yuanxiang Construction Co., Ltd. (Representative) Director of Huacheng Development Co., Ltd. (Representative) Director Huaifu International Enterprise Co., Ltd. (Representative) Director of Huaba Investment Co., Ltd. Director of Huaqi Investment Co., Ltd.

Title	Nationality and Registry	Name	Elected Date	Tenure	First Elected	Elected Shares Owned		Current Shares Owned		Shares Owned by Spouses and Minor children		Shares Held under Surrogate A/C		Education & Key Work Experience	Current Positions Held in this or other company
						No. of Shares	%	No. of Shares	%	No. of Shares	%	No. of Shares	%		
Director	R.O.C	Chien-Chun Chang Representative: Jin Yu Hua Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	-	-	-	-	-	-	-	-	National Taipei College of Business, Department of Applied Business Manager of the Loan Department of the Taishin International Bank	Director of Hequn Construction Co., Ltd.
		Jin Yu Hua Investment Co., Ltd.				919,421	0.1206	919,421	0.1206	-	-	-	-		
Director	R.O.C	Chi-Chang Liu Representative: Huasan Investment Co., Ltd.	Dec.23 2017	3	Dec.23, 2017	-	-	-	-	-	-	-	-	Master of Economics University of Southern California Chief of Section of the Securities and Futures Bureau of the Financial Supervisory Commission Direct of Taiwan Financial Holding Co., Ltd.	-
		Huasan Investment Co., Ltd.				2,052,756	0.2692	2,052,756	0.2692	-	-	-	-		

3-2-1-2. Major Institutional Shareholder:

As of Dec. 31, 2017

Institutional Shareholder	Major Shareholders of Institutional Shareholders
Chuan Cheng Hat Co., Ltd.	Song-Yie Liao(68.35%), Ching-Ling Liu(12.36%), Po-Chi Liao(9.83%), Po-Chun Liao(9.46%)
Chia De Development and Investment Co., Ltd.	Hoarder Rich Limited(100%)
Jin Yu Hua Investment Co., Ltd.	Hui-Chuan Hsu(9.90%), Kang-Wei Chang(90.10%)
Huasan Investment Co., Ltd.	Hui-Chuan Hsu(10.00%), Kang-Wei Chang(90.00%)

3-2-1-3. Major Shareholders of Major Institutional Shareholders of the Bank :

As of Dec. 31, 2017

Institutional Shareholder	Major Shareholders of Institutional Shareholders
Hoarder Rich Limited	Liu, Chen-Han(100%)

3. Corporate Governance

3-2-1-4.

Name	Qualifications	Directors or Supervisors shall meet one of the following professional requirements, together with at least five years work experience.			Independent status (Note)										Number of serve as an independent director of public companies.
		An instructor or higher up in a department of commerce, law, finance, accounting, or other academic department related to company business in a public or private junior college, college, or university.	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and has been awarded a certificate in a professional capacity that is necessary for company business.	Having work experience in the area of commerce, law, finance or accounting, or otherwise necessary for company business.	1	2	3	4	5	6	7	8	9	10	
Song-Yie Liao	-	-	✓	✓	-	-	-	-	✓	✓	✓	✓	✓	✓	1
Kun-Hsien Lin	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	2
Ying-Che Chang	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Xian-De Lai	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Chuan Cheng Hat Co., Ltd. (Min-Chang Lin)	-	-	✓	-	-	✓	✓	-	✓	✓	✓	✓	-	-	
Po-Yao Chi	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Tsung-Ta Kuo	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	1
Chien-Chung Lai	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	-
Chun-Chieh Wang	-	-	✓	✓	-	-	✓	✓	✓	✓	✓	✓	✓	✓	-
Chi-Peng Yang (Chia De Development and Investment Co., Ltd.)	-	-	✓	-	-	-	✓	✓	✓	✓	✓	✓	-	-	
Kang-Wei Chang (Jin Yu Hua Investment Co., Ltd.)	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-	
Chin-Chih Tseng (Jin Yu Hua Investment Co., Ltd.)	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-	
Ching-Wen Cheng (Jin Yu Hua Investment Co., Ltd.)	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-	
Chien-Chun Chang (Jin Yu Hua Investment Co., Ltd.)	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-	
Chi-Chang Liu (Huasan Investment Co., Ltd.)	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	-	-	

Note 1: The number of the column will be adjusted by real numbers.

Note 2: During 2 years before being elected or the tenor, directors or supervisors who meet the following conditions shall mark with "✓" in correspondent boxes.

1. Neither employees of Bank nor its affiliates.

2. Neither a director/supervisor of Bank nor its affiliates, unless the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares.

3. Not an individual shareholder who holds shares, together with those held by the person spouse, minor children, or held under others' names, in an aggregate amount of 1% or more of the total outstanding shares of the company or ranks among the top ten shareholders who are natural persons in terms of the share volume held.

4. Not a spouse or relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.

5. Not directors, supervisors, or employees of a corporate shareholder that directly holds 5% or more of the total outstanding shares of the Bank or ranks among the top 5 corporate shareholders in the terms of share volume held.

6. Not directors, supervisors, or executive officer, or shareholder holding 5% or more shares of a specific company or institution and who also has financial or business dealings with the company.

7. Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the Bank or to any affiliates.

8. Not a spouse or relative within the second degree of kinship within directors.

9. Not any of the circumstances in the subparagraphs of Article 30 of the Company Act.

10. Not elected in the capacity of government agency, legal entity, or its representative thereof, as provided in the Article 27 of the Company Act.

3-2-2. List of Executives and Principal Officers

As of Dec. 31, 2017, Shares Held (%)

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
President	Jung-Hsien Chiu	May. 01, 2017	1,349,786	0.177	-	-	-	-	Department of Industrial and Information Management, National Cheng Kung University, Master Senior Executive Vice President of COTA Bank	-
Senior Executive Vice President	Shih-Jung Chen	Jul. 01, 2016	695,793	0.091	-	-	-	-	Department of Oceanography, Chinese Culture University Senior Executive Vice President of COTA Bank	-
Chief Auditor	Chih-Sheng Hsiao	Jan. 01, 2014	1,065,118	0.140	318,160	0.042	-	-	Department of Public Finance and Taxation, Feng Chia University Senior Executive Vice President of COTA Bank	-
Senior Executive Vice President (Department General Manager)	Yun-Ching Wang	Jul. 01, 2016	503,878	0.066	255,659	0.034	-	-	Department of Finance, National Chung Hsing University, Master Executive Vice President of COTA Bank, General Manager of IT Management Office	-
Senior Executive Vice President	Huan-Mou Cheng	Jul. 01, 2016	276,091	0.036	139,316	0.018	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Executive Vice President of COTA Bank, General Manager of Taichung Branch	-
Executive Vice President (Branch General Manager)	Shih-Chien Chin	Sep. 04, 2017	808,473	0.106	199,444	0.026	-	-	Department of Applied Math., University of North Texas, USA, Master Executive Vice President of COTA Bank, General Manager of Credit Management Department	-
Executive Vice President (Branch General Manager)	Wen-Lung Chen	Sep. 04, 2017	372,682	0.049	94,914	0.012	-	-	Department of Business Administration, Chaoyang University of Technology Branch General Manager of COTA Bank, Nanmen Branch	-
Department General Manager	Kuang-Hsiung Huang	Mar. 03, 2006	384,625	0.050	346,602	0.045	-	-	Department of Economics, Feng Chia University Deputy General Manager of COTA Bank, General Administration Department	-
Department General Manager	Wei-Bin Lin	Jul. 01, 2016	233,033	0.031	-	-	-	-	Graduate School of Management, University of California at Riverside, Master Department General Manager of COTA Bank, International Banking Department and Offshore Banking Branch	-
Department General Manager	Chih-Peng Yang	Sep. 04, 2017	13,912,658	1.824	102,472	0.013	-	-	Department of Business Administration, National Open College of Continuing Education Affiliated to National Taichung Institute of Technology Branch General Manager of COTA Bank, Taichung Branch	-
Department General Manager	Ming-Heng Chan	Sep. 01, 2013	249,927	0.033	45,693	0.006	-	-	Master Program in Senior Executive Master of Business Administration, Chaoyang University of Technology Deputy General Manager of COTA Bank, Business Department	-
Department General Manager	Chuan-Hung Yang	Feb. 07, 2015	166,702	0.022	-	-	-	-	Department and Graduate Institute of Finance, Chaoyang University of Technology Deputy General Manager of COTA Bank, Risk Management Center	-
Department General Manager	Hung-Tsang Chiang	Oct. 15, 2013	286,844	0.038	151,708	0.020	-	-	Department of Public and Management, Supplementary Junior College of the National Open University Department General Manager of COTA Bank, Consumer Banking Center	-
Department General Manager	Chun-Sheng Lin	Apr. 01, 2010	178,611	0.023	40,102	0.005	-	-	Department of Chemical Engineering, Chung Yuan Christian University Deputy General Manager of COTA Bank, Risk Management Center	-
Department General Manager	Chang-Chieh Lin	Oct. 15, 2013	279,262	0.037	-	-	-	-	Department of Economics, Tunghai University Department General Manager of COTA Bank, Business Department	-

3. Corporate Governance

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
Department General Manager	Chi-Nan Huang	Jul. 01, 2016	78,090	0.010	-	-	-	-	Department of Public Administration, National Chung Hsing University Deputy General Manager of COTA Bank, International Banking Department and Offshore Banking Branch	-
Department General Manager	Jun-Long Tsai	Jul. 01, 2016	178,656	0.023	236,081	0.031	-	-	Department of Business Administration, National Chung Cheng University, Master Deputy General Manager of COTA Bank, Business Department	-
Department General Manager	Chih-Hung Huang	Jan. 08, 2014	402,442	0.053	137,833	0.018	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Jinhua Branch	-
Department General Manager	Yung-Hsieh Chen	Dec. 01, 2015	19,135	0.003	-	-	-	-	Department of Computer Science and Information Engineering (CSIE), National Taiwan University, Master Senior Engineer of ASUS	-
Department General Manager	Chen-Chuan Kuo	May. 01, 2017		0.000					Department of Risk Management & Insurance, Feng Chia University, Master Deputy General Manager of COTA Bank, Business Department	-
Branch General Manager	Ling-Chen Ting	Oct. 08, 2010	711,625	0.093	-	-	-	-	Department of Banking and Insurance, National Taichung Institute of Technology Department General Manager of COTA Bank, Trust Department	-
Branch General Manager	Jui-Sen Liao	Apr. 01, 2010	232,627	0.031	7,376	0.001	-	-	Department of Public Finance and Taxation, Institute of Industrial & Business Administration, Tamsui Oxford College Department of General Manager of COTA Bank, SME Banking Center	-
Branch General Manager	Cheng-Hsien Hsieh	Aug. 01, 2014	464,591	0.061	117,156	0.015	-	-	Department of Business, The National Open University Branch General Manager of COTA Bank, Dazhi Branch	-
Branch General Manager	Mei-Ling Shih	Jul. 01, 2016	307,752	0.040	25,437	0.003	-	-	Department of International Business, National Open College of Continuing Education Department General Manager of COTA Bank, Trust Department	-
Branch General Manager	Min-Chang Lin	Aug. 01, 2014	182,607	0.024	328,622	0.043	-	-	Department of General Business, Shin Min Commercial & Industrial Vocational Senior High School Branch General Manager of COTA Bank, Linsen Branch	-
Branch General Manager	Mao-Sheng Huang	Aug. 01, 2014	289,552	0.038	65,483	0.009	-	-	Department of Finance, Chung Hua University Branch General Manager of COTA Bank, Xinzhu Branch	-
Branch General Manager	Chi-Shen Huang	Jan. 08, 2014	599,470	0.079	67,502	0.009	-	-	Department of Banking and Insurance, National Taichung Institute of Technology Branch General Manager of COTA Bank, Banciao Branch	-
Branch General Manager	His-Tung Chang	Jan. 09, 2016	785,269	0.103	3,952	0.001	-	-	Department of Electronics Engineering, Kuang-Hwa Vocational High School of Technology Branch General Manager of COTA Bank, Zanghua Branch	-
Branch General Manager	Chien-Cheng Hsu	Apr. 08, 2015	743,213	0.097	102,964	0.016	-	-	Department of Business Administration, Tunghai University, Chief Secretary of COTA Bank, Secretariat of The Board of Directors	-
Branch General Manager	Hung-Chi Tung	Jan. 01, 2012	427,236	0.056	303,131	0.040	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Fengxin Branch	-
Branch General Manager	Chang-Cheng Chen	Jan. 09, 2016	227,636	0.030	864	0.000	-	-	Department of Extension Business Vocational School, National Taichung Institute of Technology Branch General Manager of COTA Bank, Fengxin Branch	-
Branch General Manager	Chia-Wen Ke	Dec. 08, 2014	281,950	0.037	-	-	-	-	Department of Technology Management, Chung Hua University, Master Commissioner of COTA Bank, Credit Management Department	-
Branch General Manager	Tzu-Hsiu Liang	Apr. 01, 2016	181,972	0.024	63,152	0.008	-	-	Department of Business Administration, Feng Chia University, Master Project Manager of COTA Bank, Credit Management Department	-

Title	Name	Date of Inauguration	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Education & Key Past Positions	Other Positions Held Current
			No. of Shares	%	No. of Shares	%	No. of Shares	%		
Branch General Manager	His-Hsien Wang	Jan. 09, 2016	228,646	0.030	-	-	-	-	Department of Law, Soochow University Branch General Manager of COTA Bank, Taipei Branch	-
Branch General Manager	Cheng-Hao Wu	Jan. 08, 2014	132,393	0.017	-	-	-	-	Department of Business Administration, Fujen Catholic University Deputy General Manager of COTA Bank, Banciao Branch	-
Branch General Manager	Shu-Chen Shih	Jan. 09, 2016	492,326	0.065	-	-	-	-	Department of Social Science, The National Open University Branch General Manager of COTA Bank, Fengdong Branch	-
Branch General Manager	Shih-Tsung Liu	Jun. 24, 2013	372,493	0.049	382,454	0.043	-	-	Department of Business, The National Open University Branch General Manager of COTA Bank, Fengle Branch	-
Branch General Manager	Hong-Yi Chen	Jul. 01, 2016	247,364	0.032	337,660	0.044	-	-	Department of Applied Commerce, National Taichung Institute of Technology Deputy General Manager of COTA Bank, General Administration Department	-
Branch General Manager	Kuo-Mao Wu	Jan. 01, 2017	18,578	0.002	-	-	-	-	Department of International Business, Tatung College of Business Project Manager of COTA Bank, Ciaotou Branch	-
Branch General Manager	Shi-Zhao Lee	Jan. 09, 2016	185,526	0.024	128,394	0.017	-	-	Department of Business Administration, Chung Yuan University Deputy General Manager of COTA Bank, Taichung Branch	-
Branch General Manager	Ming-Yung Yu	Aug. 01, 2014	215,017	0.028	26,730	0.004	-	-	Department of Business Administration, Taichung College of Business Project Manager of COTA Bank, Credit Management Department	-
Branch General Manager	Ping-Hung Chuang	Oct. 01, 2012	99,319	0.013	-	-	-	-	The National Kaohsiung First University of Science and Technology, Graduate Institute of Business Management Senior Manager of Jih Sun International Bank	-
Branch General Manager	Hsien-Hsun Chiang	Jun. 24, 2013	290,758	0.038	19,152	0.003	-	-	Department of Cooperative Economics, Tamkang University Branch General Manager of COTA Bank, Zhongshan Branch	-
Branch General Manager	Ming-Feng Wu	Oct. 01, 2014	41,661	0.005	-	0.000	-	-	Department of Business Administration, Soochow University Branch General Manager of Sunny Bank, Hsiaokang Branch	-
Branch General Manager	Tien-Long Yang	Jul. 01, 2014	205,212	0.027	44,959	0.006	-	-	Department of Finance, Chaoyang University of Technology Deputy General Manager of COTA Bank, Taichung Branch	-
Branch General Manager	Po-Hsun Chang	Oct. 01, 2015	45,400	0.006	-	-	-	-	Department of Finance, Chaoyang University of Technology, Master Project Manager of COTA Bank, Zhongshan Branch	-
Branch General Manager	Chung-Yi Hsu	Jan. 09, 2016	298,562	0.039	110,878	0.015	-	-	Department of Applied Commerce, National Open College of Continuing Education Affiliated to NTIT Branch General Manager of COTA Bank, Taoyuan Branch	-
Branch General Manager	Yung-Hung Tsao	Mar. 01, 2015	114,461	0.015	-	-	-	-	Department of Business Administration, Feng Chia University, Master Project Manager of COTA Bank, Nantun Branch	-

Classification of Remuneration

Unit: TWD

Classification of Remuneration for Directors	Name of Directors			
	Aggregate amount of A, B, C and D		Aggregate amount of A, B, C, D, E, F and G	
	Bank	Consolidation	Bank	Consolidation
below 2,000,000	Kuo-Chao Hsiao Ying-Che Chang Chien-Chung Lai Szu-Tsung Cheng Tai-An Chen Ting-Lieh Huang Hui-Wen Li Yuan-Yi Wang	Kuo-Chao Hsiao Ying-Che Chang Chien-Chung Lai Szu-Tsung Cheng Tai-An Chen Ting-Lieh Huang Hui-Wen Li Yuan-Yi Wang	Kuo-Chao Hsiao Ying-Che Chang Chien-Chung Lai Szu-Tsung Cheng Tai-An Chen Ting-Lieh Huang Hui-Wen Li Yuan-Yi Wang	Kuo-Chao Hsiao Ying-Che Chang Chien-Chung Lai Szu-Tsung Cheng Tai-An Chen Ting-Lieh Huang Hui-Wen Li Yuan-Yi Wang
2,000,000 - 5,000,000	Song-Yie Liao Kuo-Chao Hsiao Kun-Hsien Lin Po-Yao Chi Sung-Cheng Huang Pi-Jung Hsieh Xian-De Lai Chi-Peng Yang Chun-Chieh Wang Deng Heng Enterprise Co., Ltd. Chuan Cheng Hat Co., Ltd. Ho Chu Investment Co., Ltd. Chia De Development and Investment Co., Ltd. Cheng Shing Tai Biopharmaceutical Co., Ltd. KunYuan Investment Co., Ltd.	Song-Yie Liao Kuo-Chao Hsiao Kun-Hsien Lin Po-Yao Chi Sung-Cheng Huang Pi-Jung Hsieh Xian-De Lai Chi-Peng Yang Chun-Chieh Wang Deng Heng Enterprise Co., Ltd. Chuan Cheng Hat Co., Ltd. Ho Chu Investment Co., Ltd. Chia De Development and Investment Co., Ltd. Cheng Shing Tai Biopharmaceutical Co., Ltd. KunYuan Investment Co., Ltd.	Song-Yie Liao Kuo-Chao Hsiao Kun-Hsien Lin Po-Yao Chi Sung-Cheng Huang Pi-Jung Hsieh Xian-De Lai Chi-Peng Yang Chun-Chieh Wang Deng Heng Enterprise Co., Ltd. Chuan Cheng Hat Co., Ltd. Ho Chu Investment Co., Ltd. Chia De Development and Investment Co., Ltd. Cheng Shing Tai Biopharmaceutical Co., Ltd. KunYuan Investment Co., Ltd.	Song-Yie Liao Kuo-Chao Hsiao Kun-Hsien Lin Po-Yao Chi Sung-Cheng Huang Pi-Jung Hsieh Xian-De Lai Chi-Peng Yang Chun-Chieh Wang Deng Heng Enterprise Co., Ltd. Chuan Cheng Hat Co., Ltd. Ho Chu Investment Co., Ltd. Chia De Development and Investment Co., Ltd. Cheng Shing Tai Biopharmaceutical Co., Ltd. KunYuan Investment Co., Ltd.
5,000,000 - 10,000,000	-	-	-	-
10,000,000 - 15,000,000	-	-	Chin-Ting Chang	Chin-Ting Chang
15,000,000 - 30,000,000	-	-	-	-
30,000,000 - 50,000,000	-	-	-	-
50,000,000 - 100,000,000	-	-	-	-
Above 100,000,000	-	-	-	-
TOTAL	23 (Persons)	23 (Persons)	23 (Persons)	23 (Persons)

(2) President and Senior Executive Vice President Remuneration

As of Dec. 31, 2017, Unit: TWD thousand

Title	Name	Supervisors' Remuneration										Sum of A, B, C and D /after-tax profit (%) (Note8)		Whether or not any compensation is received from other reinvested businesses than subsidiaries (Note9)	
		Rewards (A) (Note2)		Pension and Superannuation (B)		Earning Distribution (C) (Note3)		Professional Practice (D) (Note4)							
		Bank	Consolidation (Note5)	Bank	Consolidation (Note5)	Bank	Consolidation (Note5)	Bank		Consolidation (Note5)		Bank	Consolidation (Note5)		
						Cash	Stock	Cash	Stock						
President (May.01, 2017~Dec.31, 2017)	Jung-Hsien Chiu														
President (Jan.01, 2017~Apr.30, 2017)	Chin-Ting Chang														
Senior Executive Vice President	Shih-Jung Chen	7,778	7,778	11,511	11,511	8,288	8,288	1,008	0	1,008	0	3.1163%	3.1163%	NIL	
Chief Auditor	Chih-Sheng Hsiao														
Senior Executive Vice President	Yun-Ching Wang														
Senior Executive Vice President	Huan-Mou Cheng														

Note: Not applied as the Bank is not a listed company.

3. Corporate Governance

Classification of Remuneration

Unit: TWD

Classification of Remuneration for President and Senior Executive Vice President	Name of President and Senior Executive Vice President	
	Bank(Note 6)	Consolidation(Note7)
below 2,000,000	-	-
2,000,000 - 5,000,000	Jung-Hsien Chiu, Shih-Jung Chen, Chih-Sheng Hsiao, Yun-Ching Wang, Huan-Mou Cheng	Jung-Hsien Chiu, Shih-Jung Chen, Chih-Sheng Hsiao, Yun-Ching Wang, Huan-Mou Cheng
5,000,000 - 10,000,000	-	-
10,000,000 - 15,000,000	Chin-Ting Chang	Chin-Ting Chang
15,000,000 - 30,000,000	-	-
30,000,000 - 50,000,000	-	-
50,000,000 - 100,000,000	-	-
Above 100,000,000	-	-
TOTAL	6 (Persons)	6 (Persons)

Note 1: Remuneration paid to presidents and vice presidents should be disclosed aggregately with the names indicated for each remuneration range. Director should be listed in this table and table 1-1 or table 1-2 if he/she currently holds the position of presidents and vice presidents.

Note 2: Severance pay, additional pay and salary paid to presidents and vice presidents for the most recent fiscal year.

Note 3: Bonus, cash rewards, travel expenses, special disbursement, miscellaneous subsidies, house, vehicle and other pay and goods paid or provided to presidents and vice presidents. When house, vehicle is provided or exclusive pay is paid to presidents and vice presidents, the nature of the assets and the cost or market value of rent of houses and fuel expenses and miscellaneous should be disclosed. Salary of drivers, not to be included in remuneration, should be disclosed. According to "Share-based payment" in IFRS2, obtaining employee shares option certificate, new restricted employee shares, participating in cash injection for shares are to be included in remuneration.

Note 4: The proposed amount of employee dividends, including stock dividends and cash dividends, paid to presidents and vice presidents approved by the board before shareholder's meeting. It should also fill in appendix table 1-3.

Note 5: Total remuneration paid by the all companies (including our company) in the consolidated report to presidents and vice presidents should be disclosed.

Note 6: Names of president and vice presidents must be disclosed in the suitable range based on the remuneration they received.

Note 7: Total remuneration paid by the all companies (including our company) in the consolidated report to presidents and vice presidents should be disclosed. And names of president and vice presidents must be disclosed in the suitable range based on the remuneration they received.

Note 8: Net income disclosed from latest financial statement of each company.

Note 9: a. Remuneration amount received by presidents and vice presidents from non-group affiliates.

b. For remuneration received by presidents and vice presidents from non-group affiliates, the amount must be shown in the Column E under the Remuneration Range Table. The Column must be renamed to —All Investment Businesses.

c. Remuneration refers to compensation, remuneration, employee dividends (including dividends to employee, board member and supervisor), and payments related to business execution expenses received by presidents and vice presidents of COTA serving as directors, supervisors or managers of non-group affiliates.

* Remuneration shown under the chart is for disclosure purpose. It is not subject to "income" under the Income Tax Act, and thereby is not taxable.

(3) List of Compensation Paid to President, Executive Vice Presidents and General Managers

As of Dec. 31, 2017; Unit: TWD thousand

	Title	Name	Stock dividends	Cash Dividends	Total Amount	Total Amount/Net Income (%)
Manager	President (May.01, 2017-Dec.31, 2017)	Jung-Hsien Chiu				
	President (Jan.01.2017-Apr.30, 2017)	Chin-Ting Chang				
	Senior Executive Vice President	Shih-Jung Chen				
	Chief Auditor	Chih-Sheng Hsiao				
	Senior Executive Vice President (Department General Manager)	Yun-Ching Wang				
	Senior Executive Vice President	Huan-Mou Cheng				
	Executive Vice President (Branch General Manager)	Shih-Chien Chin				
	Executive Vice President (Branch General Manager)	Wen-Lung Chen				
	Department General Manager	Kuang-Hsiung Huang				
	Department General Manager	Wei-Bin Lin				
	Department General Manager	Chih-Peng Yang				
	Department General Manager	Ming-Heng Chan				
	Department General Manager	Chuan-Hung Yang				
	Department General Manager	Hung-Tsang Chiang				
	Department General Manager	Chun-Sheng Lin				
	Department General Manager	Chang-Chieh Lin				
	Department General Manager	Chih-Nan Huang				
	Department General Manager	Chun-Lung Tsai				
	Department General Manager	Chih-Huang Huang				
	Department General Manager	Yung-Hsieh Chen				
	Department General Manage	Chen-Chuan Kuo				
	Branch General Manager	Ling-Chen Ting				
	Branch General Manager	Jui-Sen Liao				
	Branch General Manager	Cheng-Hsien Hsieh	-	7,012	7,012	0.76%
	Branch General Manager	Mei-Ling Shih				
	Branch General Manager	Min-Chang Lin				
	Branch General Manager	Mao-Sheng Huang				
	Branch General Manager	Chi-Shen Huang				
	Branch General Manager	His-Tung Chang				
	Branch General Manager	Chien-Cheng Hsu				
	Branch General Manager	Hung-Chi Tung				
	Branch General Manager	Chang-Cheng Chen				
	Branch General Manager	Chia-Wen Ke				
	Branch General Manager	Tzu-Hsiu Liang				
	Branch General Manager	His-Hsien Wang				
	Branch General Manager	Cheng-Hao Wu				
	Branch General Manager	Shu-Chen Shih				
	Branch General Manager	Shih-Tsung Liu				
	Branch General Manager	Hung-I Chen				
	Branch General Manager	Kuo-Mao Wu				
Branch General Manager	Shih-Chao Li					
Branch General Manager	Ming-Yung Yu					
Branch General Manager	Ping-Hung Chuang					
Branch General Manager	Hsien-Hsun Chiang					
Branch General Manager	Ming-Feng Wu					
Branch General Manager	Tien-Long Yang					
Branch General Manager	Po-Hsun Chang					
Branch General Manager	Chung-Yi Hsu					
Branch General Manager	Yung-Hung Tsao					

Note: Not applied as the Bank is not a listed company.

3. Corporate Governance

3-2-4. Analysis of Remuneration Paid to Directors, Supervisors, and Executive Officers of the Bank and All Companies in the Consolidated Financial Statements as a Percentage of Net Profit after Tax during the Past Two Years

Item	Total Amount / Net Income After Tax		
	Year 2017	Year 2016	%
Director (Including independent director)	6.04%	5.83%	+0.21%

Remarks:

Remuneration of director is calculated based on bank's performance and regular gross profit and is paid in accordance with guidelines of the Bank's articles of incorporate .

Item	Total Amount / Net Income After Tax		
	Year 2017	Year 2016	%
President and Senior Executive Vice President	3.1163%	3.9042%	-0.7879%

Remarks:

1. Remuneration for president and vice-president is paid in accordance with rules approved by the board of directors.
2. Payment of employee salary is calculated by related by-laws.
3. Employee bonus is distributed by the resolution of the annual shareholders' general meeting and applicable rules.
4. Performance bonus is paid according to year earning status and rules of performance evaluation.



3-3. Operation of Corporate Governance

3-3-1. Operation of board of directors: 5 meetings were convened last year; and the records of attendance of directors and supervisors at the meetings are as below:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%)	Annotations
Chairman	Song-Yie Liao	5	0	100	Re-elected on Dec 22 2017 and re-elected as chairman on Jan 12 2018
Managing Director	Kuo-Chao Hsiao	1	0	20	Died on Jul 8 2017
Managing (Independent) Director	Kun-Hsien Lin	5	0	100	Re-elected on Dec 22 2017
Managing Director	Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)	5	0	100	Retired on Dec 22 2017
Managing Director	Chuan Cheng Hat Co., Ltd. Representative: Chien-Chung Lai	5	0	100	Re-elected on Dec 22 2017. Representative reassigned to Ming-Chang Lin
Independent Director	Po-Yao Chi	5	0	100	Re-elected on Dec 22 2017
Independent Director	Sung-Cheng Huang	5	0	100	Retired on Dec 22 2017
Independent Director	Xian-De Lai	5	0	100	Re-elected on Dec 22 2017 Selected as managing director on Jan 12 2018
Director	Pi-Jung Hsieh	5	0	100	Retired on Dec 22 2017
Director	Chun-Chieh Wang	4	1	80	Re-elected on Dec 22 2017
Director	Chi-Peng Yang	5	1	100	Re-elected on Dec 22 2017
Director	HoChu Investment Ltd. Representative: Szu-Tsung Cheng	5	0	100	Retired on Dec 22 2017
Director	ChiaDe Development and Investment Co., Ltd. Representative: Tai-An Chen	5	0	100	Representative assigned to Chang-Shi Huang when re-elected on Dec 22. Representative reassigned to Chi-Peng Yang on Dec 23 2017
Director	Cheng Shing Tai Biopharmaceutical Co., Ltd. Representative: Ting-Lieh Huang	5	0	100	Retired on Dec 22 2017

3. Corporate Governance

Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%)	Annotations
Director	Chih-Ting Chang (Retired on May 31 2017) Wen-Hui Lee (Jun 1 ~ Aug 24 2017) Yuan-Yi Wang (Succeed on Aug 25 2017) (Representing KunYuan Investment Co., Ltd.)	4	0	80	Re-elected on Dec 22 2017
Managing Director	Ying-Che Chang				Elected on Dec 22 2017 (Representative of legal entity before election)
Director	Chien-Chung Lai				Elected on Dec 22 2017 (Representative of legal entity before election)
Independent Director	Tsung-Ta Kuo				Elected on Dec 22 2017
Director	Kang-Wei Chang Representing:				Elected on Dec 22 2017
Director	Chin-Chih Tseng Representing:				Elected on Dec 22 2017
Director	Ching-Wen Cheng Representing:				Elected on Dec 22 2017
Director	Chi-Chang Liu Representing:				Elected on Dec 22 2017
Director	Chien-Chun Chang Representing:				Elected on Dec 22 2017

Other details that warrant inclusion:

1. In the event of any following circumstances occurring while the board meeting is convened, please state the date, session, motion, the opinion of independent directors and how the opinions are handled by the bank:

a. Matters specified in Article 14-3 of the Securities Exchange Act:

Date and Order of Board Meeting	Motion	Opinion from Independent Directors and how it was handled
9 th meeting of the 7 th Board of Directors on 2017 Mar.24	CPA remuneration.	
9 th meeting of the 7 th Board of Directors on 2017 Mar.24 11 th meeting of the 7 th Board of Directors on 2017 Aug.23	Annual and Semi-annual financial report.	
9 th meeting of the 7 th Board of Directors on 2017 Mar.24	Capital Injection. Proposal A: NTD800 million Proposal B: NTD1 billion	Independent Director Sung-Cheng Huang was in disagreement with the board and it was posted on MOPS.
9 th meeting of the 7 th Board of Directors on 2017 Mar.24	Capital increase from retained earnings of 2016.	
10 th meeting of the 7 th Board of Directors on 2017 Jun.28	Office lease renewal with COTA Culture and Education Foundation	
10 th meeting of the 7 th Board of Directors on 2017 Jun.28	Credit extended to Director Kuo-Chao Hsiao.	
11 th meeting of the 7 th Board of Directors on 2017 Aug.23	Special audit on Taichung Branch manager Chi-Peng Yang, also a director of the bank, illegal part-time job.	

11 th meeting of the 7 th Board of Directors on 2017 Aug.23 12 th meeting of the 7 th Board of Directors on 2017 Nov.9	Statement for the Internal Control Systems for Anti-money Laundering and Countering Terrorism Financing for the first half year of 2017.	
11 th meeting of the 7 th Board of Directors on 2017 Aug.23	Credit extended to Director Chi-Peng Yang.	Suggestion: interest rate 1.95%. Proposal resolved as suggested.
12 th meeting of the 7 th Board of Directors on 2017 Nov.9	Revision of Internal control System.	
12 th meeting of the 7 th Board of Directors on 2017 Nov.9	Annual donation to COTA Culture and Education Foundation, for 2017	

b. Other than matters hereinabove, resolutions which were objected or kept qualified opinion by independent board directors:

Issue: The member of the 7th Board Nominating committee Kuo-Chao Hsiao passed away and the representative of Chuan Cheng Hat Co., Ltd. Chien-Chung Lai was proposed to filling this vacancy.

Resolution results and process: Independent Director Sung-Cheng Huang recommended himself to be a member of Board Nominating Committee.

Voting Result: Managing Director Chien-Chung Lai, 13 votes, and Independent Director Sung-Cheng Huang, 1 vote. The majority of the directors in this meeting passed and appointed Managing Director Chien-Chung Lai to be a member of the Board Nominating Committee.

2. Recusal of directors based upon conflicts of interest:

◆ 9th meeting of the 7th Board of Directors on March 24, 2017:

■ Motion: Prolongation of the expiration term of director and supervisor of COTA Insurance Brokers Co., Ltd, subsidiary of COTA.

Name of director: Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)

Reason for recusal: Ying-Che Chang is a board director of COTA Insurance Brokers Co., Ltd.

Voting participation situation: Director Ying-Che Chang requested a leave of absence due to conflict of interest pertaining to the motion.

■ Motion: The Bank's new general manager nomination and appointment case.

Name of director: Chih-Ting Chang

Reason for recusal: Chih-Ting Chang is the general manager of the bank.

Voting participation situation: Director Chih-Ting Chang requested a leave of absence due to conflict of interest pertaining to the motion.

◆ The 10th Meeting of the 7th Board of Directors on June.28, 2017:

■ Motion: Leasing contract with COTA Culture and Education Foundation.

Name of director: Pi-Jung Hsieh, Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)

Reason for recusal: The Director of COTA Culture and Education Foundation.

Voting participation situation: Director Pi-Jung Hsieh, Ying-Che Chang requested a leave of absence due to conflict of interest pertaining to the motion.

■ Motion: Credit extended to Director Kuo-Chao Hsiao

Name of director: Kuo-Chao Hsiao, Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)

Reason for recusal: Kuo-Chao Hsiao was an interest party to the bank and also to the Deng-Heng Ent. Co Ltd.

Voting participation situation: Director Kuo-Chao Hsiao did not attend this meeting. Director Ying-Che Chang requested a leave of absence due to conflict of interest pertaining to the motion.

■ Motion: The bank's branch manager nomination and appointment case

Name of director: Chi-Peng Yang

Reason for recusal: Chi-Peng Yang is the manager of Taichung Branch.

Voting participation situation: Director Chi-Peng Yang requested a leave of absence due to conflict of interest pertaining to the motion.

◆ The 11th Meeting of the 7th Board of Directors on August.23, 2017:

■ Motion: Special audit on Taichung Branch manager Chi-Peng Yang's illegal part-time job. Report from Personnel Appraisal Committee and Audit Committee regarding the special audit.

Reason for recusal: Chi-Peng Yang is the manager of Taichung Branch.

Voting participation situation: Director Chi-Peng Yang requested a leave of absence due to conflict of interest pertaining to the motion.

■ Motion: The adjustment of remuneration for employees of COTA Insurance Brokers Co., Ltd. after transferred from a subsidiary to the bank's department

Name of director: Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)

Reason for recusal: Ying-Che Chang is a board director of COTA Insurance Brokers Co., Ltd.

Voting participation situation: Director Ying-Che Chang requested a leave of absence due to conflict of interest pertaining to the motion.

■ Motion: Credit extended to Taichung branch manager Chi-Peng Yang.

Name of director: Ying-Che Chang

Reason for recusal: Chi-Peng Yang is the manager of Taichung Branch.

Voting participation situation: Director Chi-Peng Yang requested a leave of absence due to conflict of interest pertaining to the motion.

■ Motion: Taichung branch manager nomination and appointment case

Name of director: Chi-Peng Yang

Reason for recusal: Chi-Peng Yang is the manager of Taichung Branch.

Voting participation situation: Director Chi-Peng Yang requested a leave of absence due to conflict of interest pertaining to the motion.

General Director Re-election was conducted in interim shareholders meeting on December 22, 2018. The 8th Director took office on December 23, 2017 and held the first interim board meeting on January 5, 2018.

3. The objective of strengthening the functions of the Board of Directors and the execution status in the current and most recent years: courses on banking practice and compliance (e.g. FinTech, AML/CFT) were held regularly; and board directors were invited to participate in trainings.

3. Corporate Governance

3-3-2. Operation of the auditing committee:

6 Meetings were convened last year; and the records of attendance of independent directors at the meetings are as below:

Title	Name	Attendance in Person (B)	Attendance by Proxy	Actual Attendance Rate (%)	Annotations
Independent Director	Po-Yao Chi	6	-	100	Re-elected on Dec 22 2017
Independent Director	Kun-Hsien Lin	6	-	100	Re-elected on Dec 22 2017
Independent Director	Sung-Cheng Huang	6	-	100	Retired on Dec 22 2017
Independent Director	Tsung-Ta Kuo	-	-	-	Elected on Dec 22 2017

Other details that warrant inclusion:

In the event of any following circumstances occurring while the audit committee is convened, please state the date, session, motion, the resolution of the audit committee and how the resolutions are handled by the bank:

a. Matters specified in Article 14-5 of the Securities Exchange Act:

Proposal	Resolution	Opinion from bank to the resolution	Date and Order of Board Meeting
Appointment and remuneration for CPA	Unanimous consent	Resolution discussed and passed by board meeting	9 th meeting of the 7 th Board of Directors on Mar.24, 2017
Annual and Semi-annual financial report	Unanimous consent	Resolution discussed and passed by board meeting	9 th meeting of the 7 th Board of Directors on Mar.24, 2017 11 th meeting of the 7 th Board of Directors on Aug.23, 2017
The bank made two proposal of capital injection, namely, proposal A:800 million and proposal B:1 billion.	The majority of the committee passed the two proposals and asked the Board to choose one.	The result was submitted to the board for voting.	9 th meeting of the 7 th Board of Directors on Mar.24, 2017
Capital increase from retained earnings of 2016.	Unanimous consent	The result was submitted to the board for voting.	9 th meeting of the 7 th Board of Directors on Mar.24, 2017
Internal control statement, internal audit plan declaration (including Additional Credit Inspection in Mainland China), and CPA's suggestions for the Bank's Audit Report.	Unanimous consent	Resolution discussed and passed by board meeting	9 th meeting of the 7 th Board of Directors on Mar.24, 2017 12 th meeting of the 7 th Board of Directors on Nov.9, 2017
Office lease renewal with COTA Culture and Education Foundation	Unanimous consent	Resolution discussed and passed by board meeting	10 th meeting of the 7 th Board of Directors on Jun.28, 2017
Credit extended to Director Kuo-Chao Hsiao.	Unanimous consent	Resolution discussed and passed by board meeting	10 th meeting of the 7 th Board of Directors on Jun.28, 2017
Special audit on Taichung Branch manager Chi-Peng Yang, also a director of the bank, illegal part-time job.	Unanimous consent	Resolution discussed and passed by board meeting	11 th meeting of the 7 th Board of Directors on Aug.23, 2017
Statement for the Internal Control Systems for Anti-money Laundering and Countering Terrorism Financing for the first half year of 2017.	Unanimous consent	Resolution discussed and passed by board meeting	11 th meeting of the 7 th Board of Directors on Aug.23, 2017 12 th meeting of the 7 th Board of Directors on Nov.9, 2017
Credit extended to Director Chi-Peng Yang.	Unanimous consent	Resolution discussed and passed by board meeting	11 th meeting of the 7 th Board of Directors on Aug.23, 2017
Revision of Internal control System.	Unanimous consent	Resolution discussed and passed by board meeting	12 th meeting of the 7 th Board of Directors on Nov.9, 2017
Annual donation to COTA Culture and Education Foundation, for 2018	Unanimous consent	Resolution discussed and passed by board meeting	7 th interim meeting of the 7 th Board of Directors on Nov.27, 2017

- b. Except for proposals hereinabove, any matter that has not been passed by the audit committee, but has been adopted with the approval of two-thirds or more of all board directors.: None
 - 2. Recusals of independent directors based upon conflict of interest: None
 - 3. Communication among independent directors, the Chief Auditor and CPAs:
 - (1) Communication between CPAs and independent directors:
 - 1. Accountants and independent directors are very well communicated when producing annual and semi-annual financial reports. Financial reports are provided to independent directors before meetings of audit committee. Chief accounting officer is invited to meetings of audit committee to report the certification of financial report and to ensure integrity of the certification, which is then audited by audit committee after approved by board resolution.
 - 2. In response to changes in Statements on Auditing Standards (SASs), on March 15, 2017, the Bank's CPAs were invited to the Audit Committee to explain the new auditor's report. In the future, the bank will continue to communicate with the Bank's CPAs at least once a year, and incorporate the mechanism into the Bank's internal operating procedures.
 - (2) Communication between the chief auditor and independent directors:
 - Director and independent directors are invited to semi-annual meetings discussing faults and issues listed in the report on internal audit and internal control. Other significant matters are also presented to the audit committee and the board of directors.
- © General Director Re-election was conducted in interim shareholders meeting on December 22, 2018. The 8th Director took office on December 23, 2017. The second audit committee was elected by the board on January 12, 2018.

3-3-3. Items of Compulsory Disclosure in Accordance with Corporate Governance Best-Practice Principles for Banks: Please refer to 3-3-4.

3-3-4. Current Status of the Bank's Corporate Governance Practices and Its Comparison against the Corporate Governance Best-Practice Principles for Banks

Item	Status of Operation			Differences from "The Corporate Governance guidelines for banking industry" and Reasons
	Y	N	Summary	
I. Ownership structure and Shareholders' equity of the Bank (1) Has the bank established procedures handling shareholders' suggestions, queries, disputes and litigations, as well as act in accordance with said procedures? (2) Is the bank able to identify its major shareholders and the ultimate person or persons behind such shareholders? (3) Has the Bank established and implemented firewalls and risk management mechanisms between its affiliates.	✓		(1) Shareholder's suggestions and litigations are handled immediately by appropriate department. (2) The bank has appropriate department compiling list of major shareholders monthly. (3) The bank and its affiliates are independent in financial, accounting, business and management aspects. Operation profit or loss and goals are regularly reported to Asset-Liability and Risk Management Committee for risk control.	No difference
II. Duties of Board of Directors (1) Besides setting up the Compensation Committee and Audit Committee according to law, does the Bank voluntarily set up other functional committees? (2) Does the Bank evaluate the independence of its CPAs on a regular basis?	✓		(1) The Bank also established Nomination Committee. (2) Assessment of the independency of appointed CPAs is conducted regularly.	No difference.

3. Corporate Governance

Item	Status of Operation			Differences from "The Corporate Governance guidelines for banking industry" and Reasons
	Y	N	Summary	
III. In the event the bank is public or OTC listed company, has the bank instituted a dedicated(or concurrent) corporate governance unit or personnel to be in charge of corporate governance affairs(including but not limited to the provision of necessary data for board directors and supervisors to execute their duties, administering matters relating to the board meetings and shareholder's meetings in according with law, administering company incorporation and change in incorporation, and producing minute of board meetings and shareholder's meetings)?		✓	The bank is not a listed company	Not applicable
VI. Has the Bank established a channel to communicate with parties of interest(including but not limited to shareholders, employees and customers, etc)?	✓		Communications among interested parties in persons, by phone, or online. Directors are asked to update and confirm the information of interested parties regularly. Information of managers is updated every February and August. Operated according to San-Xin-Yin-Sheng-Zi-Di No.10403619(Oct. 15 2015)	No difference.
V. Disclosure of information (1) Has the Bank set up website for the disclosure of financial information and its corporate governance practices? (2) Any other methods adopted by the Bank for the disclosure of information (e.g., establishing English version website, appointing persons responsible for gathering and disclosing Bank information, implementing a spokesperson system, and placing the record of analyst meeting on its website)?		✓	(1) Disclose status of Financial information, Business operation and Corporate governance on the website (http://www.cotabank.com.tw) (2) Status of Financial information and business operation are disclosed on our website. President of the Bank is the spokesperson of the Bank.	No difference.
IV. Has the Bank provided other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies,		✓	1. Employee rights: the Bank advocates the spirits of humanity. Ensure employee rights by complying with the labor standard law and establishing the Employees' Welfare Committee. Labor-Management conference is convened regularly. 2. Employee wellness: Organize staff trips to ease the tension of life. Home visiting every year to understand the living condition of staff. 3. Investors relations: Establish designated web-pages for shareholders providing relevant information of stock matters. The Bank formulated the code of practice and voting policy for legal person shareholders with higher privileges to ensure shareholders' equity.	

Item	Status of Operation			Differences from "The Corporate Governance guidelines for banking industry" and Reasons
	Y	N	Summary	
purchasing insurance for directors and supervisors, political donation and donation to interested parties and public interested group)?			<p>4. Rights of stakeholders and consumer's protection and the policy of corporate governance: the Bank has always emphasized customer service quality. It provides customer complain channel and has implemented a number of customer protection policies.</p> <p>5. Training and advanced studies of board members and supervisors: Taiwan Securities and Futures Institute and Taiwan Academy of Banking and Finance have arranged corporate governance courses for directors and supervisors (total of 6hrs in 2017). Various on-job trainings are instructed periodically.</p> <p>6. Implementation of risk management policies and risk evaluation measures: Establish Risk Management Center, "Assets, Liabilities and Risk Management Committee" evaluate regularly operating risk and report to the board of directors. We obey rules of government and BIS to make policies of risk management to ensure our safety of banking operations and performances.</p> <p>7. Purchasing insurance for directors and supervisors: In order to round out the company's corporate governance mechanism and reduce risk exposed to directors and key staff members of the company, the Bank has taken out liability insurance for directors, supervisors and managers.</p> <p>8. Political donation and donation to interested parties and public interested group in 2017 are stated below: a. Interested parties: COTA Culture and Education Foundation: 50 thousand dollars. b. G.L.S.F.: 500 thousand dollars. c. ChenSenMei Social Welfare Foundation: 21,600 dollars. d. Political Donation: None.</p>	No difference
IIV. Please explain improvements made pursuant to the Taiwan Stock Exchange Corporation Corporate Governance Center's corporate governance assessment results issued in the most recent year, and explain any matters and measures to be strengthened as a first priority in areas where improvements have not yet been made.		✓	None.	No difference

3. Corporate Governance

3-3-5. Composition, Duties, and Operation of the Remuneration Committee

3-3-5-1. Professional Qualifications and Independence Analysis of Member of Remuneration Committee

Position (Note 1)	Name	Directors or Supervisors shall meet one of the following professional requirements, together with at least five years work experience.			Independent status (Note 2)								Number of compensation committees at other companies of which the individual is a member on a concurrent basis	Annotations (Note 3)	
		At least a lecturer of business, law, finance or accounting departments or other departments that can be connected to bank needs of public or private colleges/universities.	A judge, prosecutor, attorney, CPA, or other professional or technical personnel who possesses national certification in an area needed by the bank.	Experience in business, law, finance, accounting or other work as needed by the bank.	1	2	3	4	5	6	7	8			
Convener	Po-Yao Chi	-	-	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	N	See remarks
Member	Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	N	
Member	Pi-Jung Hsieh	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	N	
Member	Xian-De Lai	-	-	✓	✓	-	✓	✓	-	✓	✓	✓	✓	N	
Member	ChiaDe Development and Investment Co., Ltd. Representative: Tai-An Chen	-	-	✓	✓	-	✓	✓	✓	✓	✓	✓	✓	N	

© General Director Re-election was conducted in interim shareholders meeting on December 22, 2018. The 8th Director took office on December 23, 2017. The eighth remuneration committee was elected by the board on January 12, 2018.

Remarks:

COTA Bank is a public company, not subject to "Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter" and Article 14-6 of Securities and Exchange Act.

Note:

1. Position: Please fill in Director, Independent Director or Others
2. Please mark "✓" in the space below relevant criteria met by members during the two years prior to appointment and during their period of appointment.
 - (1) Neither employees of Bank nor its affiliates.
 - (2) Neither a director/supervisor of Bank nor its affiliates, unless the person is an independent director of the company, its parent company, or any subsidiary in which the company holds, directly or indirectly, more than 50% of the voting shares.
 - (3) Not a shareholder who holds shares, together with those held by the person spouse, minor children, or held under others' names, in an aggregate amount of 1% or more of the total outstanding shares of the company or ranks among the top 10 shareholders who are natural persons in terms of the share volume held.
 - (4) Not a spouse or relative within the second-degree of kinship, or lineal relative within the third-degree of kinship, of any of the persons in the foregoing three subparagraphs.
 - (5) Not directors, supervisors, or employees of a corporate shareholder directly holding 5% or more of the total outstanding shares of the Bank or ranks among the top 5 corporate shareholders in the terms of share volume held.
 - (6) Not directors, supervisors, or executive officer, or shareholder holding 5% or more shares of a specific company or institution and who also has financial or business dealings with the company.
 - (7) Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the Bank or to any affiliates.
 - (8) Not contain one of the requirements listed in the various subparagraphs of Article 30 of the Company Act.

3-3-5-2. Operation of Remuneration Committee:

- (1) The Bank's Remuneration Committee has 5 members.
- (2) Period of appointment of 7th committee members is from February 6, 2015 to December 28, 2017. 4 meetings were convened in the most recent year, and the records of attendance at the meetings are as below:

Title	Name	Attendance in Person (B)	Attendance By Proxy	Actual Attendance Rate (%) (B/A)	Annotation
Chairman	Po-Yao Chi	3	0	100	
Member	Ying-Che Chang (Representing Deng-Heng Ent. Co Ltd.)	3	0	100	
Member	Pi-Jung Hsieh	3	0	100	
Member	Xian-De Lai	3	0	100	
Member	Chia De Development and Investment Co., Ltd. Representative: Tai-An Chen	3	0	100	

Remarks:

- Please state the board meeting's date, session, motion, resolution and result of execution if the advice of the remuneration committee was declined, revised or suggested to be amended by the board (please clearly state the discrepancy and its reason of the salary compensation approved by the board was better than that recommended by the remuneration Committee): None.
- Please state the meeting's date, session, motion, resolution and result of execution if there was any committee member holds opposition or different opinions to the resolution made by the remuneration committee: None.

© General Director Re-election was conducted in interim shareholders meeting on December 22, 2018. The 8th Director took office on December 23, 2017. The eighth remuneration committee was elected by the board on January 12, 2018.

3-3-6. Status for fulfillment of social responsibility:

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies* and reasons
	Y	N	Summary	
1. Exercising Corporate Governance (1) Has the Bank had a corporate social responsibility policy or system in place and is the performance of such policy reviewed on a regular basis? (2) Does the bank organize social responsibility education for employee regularly? (3) Does the bank have a unit that specializes (or is involved) in CSR practices? Is the CSR unit run by senior management and reports its progress to the board of directors? (4) Has the bank implemented a reasonable remuneration system that commensurate employee' performance appraisals with CSR? Is the remuneration system supported by an effective reward/discipline system?	✓ ✓ ✓ ✓	✓ ✓ ✓	(1) The Bank strives to fulfill its social responsibility by sponsoring COTA Culture and Education Foundation and other public interest groups, and it has been consistently fulfilling its social responsibility. (2) Regular education training and conferences emphasize on business ethics (3) No (4) The bank has not implemented a reasonable remuneration system that commensurate employee' performance appraisals with CSR.	The Bank is not a listed company in TWSE or OTC

3. Corporate Governance

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons
	Y	N	Summary	
<p>2. Fostering a sustainable environment</p> <p>(1) Is the bank committed to achieving efficient use of resources, and using renewable materials that produce less impact on the environment?</p> <p>(2) Has the bank developed an appropriate environmental management system, given its industry characteristics?</p> <p>(3) Is the bank aware of how climate changes affect its business activities? Are there any actions taken to measure and reduce greenhouse gas emission and energy use?</p>	<p>✓</p> <p>✓</p> <p>✓</p>		<p>(1) Encourage employees to use double-side printing and recycle and reuse used printing papers. Encourage employees to use their own cups in meetings to reduce the use of paper cup.</p> <p>(2) Turn off the power when leaving the offices, set the air-conditioner temperature at 27 degree, and do recycle.</p> <p>(3) The Bank replaces high energy consumption lights with T5 or LED lights.</p>	
<p>3. Preserving Public Welfare</p> <p>(1) Has the Bank stipulated policies and procedures in accordance with laws and the International Bill of Human Rights?</p> <p>(2) Has the Bank had employee grievance policy? Are grievances being handled properly?</p> <p>(3) Does the bank provide employees with a safe and healthy work environment? Are employees trained regularly on safety and health issues?</p> <p>(4) Does the bank have channels to communicate with employees on a regular basis, and inform them of operational changes that may be of a significant impact?</p> <p>(5) Has the bank implemented an effective training program that helps employees develop skills over the course of their career?</p> <p>(6) Has the bank implemented consumer protection and grievance policies with regards to its research, development, procurement, production, operating and service activities?</p> <p>(7) Has the bank complied with laws and international standards with regards to the marketing and labeling of products and services?</p> <p>(8) Does the bank evaluate suppliers' environmental and social conducts before commencing business relationships?</p> <p>(9) Is the bank entitled to terminate the supply agreement at any time with a major supplier, if the supplier is found to have violated its corporate social responsibilities and caused significant impacts to the environment or the society?</p>	<p></p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p> <p>✓</p>	<p>✓</p>	<p>Has the Bank developed its policies</p> <p>(1) No</p> <p>(2) Employee grievances are well handled by the human resources department.</p> <p>(3) The Bank has developed employee safety and health policies which complied with the Labor Health Protection Regulations.</p> <p>(4) Periodical meetings between labor and management.</p> <p>(5) Employee education and training is carried out according to job responsibilities and personal career development every year.</p> <p>(6) The bank has developed consumer protection rules. Self-appraisals of consumer protection should be conducted when designing products, formulating contracts and providing services. Consumer grievances are taken cared according to internal directions for managing customer grievances. And a direct line is designed for consumer grievances.</p> <p>(7) With respect to advertising and promotional materials, the Bank has developed “Regulations on Soliciting of Business thru Advertisements and Business Promotion Activities” and “Regulations on Provision of Key Contractual Contents and Risk Disclosure before Providing Financial Products and Services” to ensure consumers' interests.</p> <p>(8) Bad records and derogatory information of suppliers are taken into consideration when selecting suppliers.</p> <p>(9) The company has implemented a set of "Supplier Management Guidelines" and CSR commitments to ensure that suppliers comply and fulfill their corporate social responsibilities in terms of worker respects, law compliance,</p>	

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons
	Y	N	Summary	
			and environmental-friendly and sustainable production, which are all taken into consideration when the company is evaluating or auditing a particular supplier.	
4. Enhancing Disclosure of Corporate Social Responsibility Information Has the bank disclosed relevant and reliable CSR information on its website and at the Market Observation Post System?	✓		CSR information is disclosed in annual report and website of the Bank (www.cotabank.com.tw)	
5. If the Company has stipulated its own corporate social responsibility rules on the basis of the “Corporate Social Responsibility Best Practice Principles for TWSE/GTSM-Listed Companies,” please state any discrepancy between implementation and the stipulated rules”: None (The Bank is not a listed company in TWSE or OTC)				
6. Other important information that helps to understand the implementation of best practices of corporate social responsibility: COTA Bank upholds a philosophy of “Nurtured by the society, requite the society” so that we think it’s our obligation to fulfill social responsibility. COTA bank cares about and contributes to the society thru various ways such as donation and holding activities among communities. The bank set up COTA Culture and Education Foundation to advocate lifelong learning. COTA bank will adhere to the principle of giving back to society by providing better community financial service and sponsoring and promoting community welfare.				
7. Please state if the bank’s corporate social responsibility report is verified by relevant verification agency: None				

3-3-7. Implementation of Ethical Corporate Management and Practices:

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons
	Y	N	Summary	
1. Establishment of ethical corporate management policies and programs. (1) Does the Bank adopt an explicit indication of its ethical corporate management policy in internal regulations and external documents; implementation of the pledge by its board of directors and management to enforce the policy rigorously and thoroughly? (2) Does the Bank adopt an unethical conduct prevention program in which operational procedures, behavioral guidelines, and a mechanism for punishment of appeals for alleged violations are clearly defined, and enforce it without fail?	✓ ✓		(1) Instead, the Bank established honesty and integrity rules in “Procedure for Board of Directors Meetings”, “Regulation on Donation” and “Employee Code of Conduct”. (2) The Bank established honesty and integrity rules in “Procedure for Board of Directors Meetings”, “Regulation on Donation”, “Employee Code of Conduct”, “Directions on Internal Control and Risk Management in Wealth Management Business” and “Regulations on Soliciting of Business thru Advertisements and Business Promotion Activities”.	The Bank is not a listed company in TWSE or OTC

3. Corporate Governance

Item	Operating conditions			Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies” and reasons
	Y	N	Summary	
(3) Does the Bank adopt preventive measures against practices listed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies or other business activities with higher risk of being linked to unethical conduct?	✓		(3) For prevention of unethical behavior, the bank has established “Regulations on Personnel Management”, “Employee Code of Conduct”, “Regulation on Donation” and “Directions on credit extension and other transactions with interested parties”.	
2. Implementation of ethical corporate management				
(1) Does the Bank evaluate the records of ethical/unethical conduct of its business counterparties and include in such contract provision demanding ethical corporate management policy compliance?	✓		(1) The Bank avoids dealing with parties that have records of unethical conducts. When entering into contracts with other parties, the Bank shall include in such contract provision demanding ethical corporate management policy compliance. The Bank immediately stops business relation while acknowledging of unethical conducts of its counterparties.	
(2) Does the Bank establish a unit under the Board of Directors that is exclusively or concurrently responsible for promoting ethical management, and reports its status of implementation to the board on a regular basis?		✓	(2) The Bank established the compliance system, internal control systems, internal audit, risk management, and set functional committee by regulation to strengthen the function of decision-making and management of board of directors.	
(3) Status of the Bank’s promulgating policies for prevention of conflicts of interests and offering appropriate means for related personnel to voluntarily explain whether their interests would potentially conflict with those of the Bank.	✓		(3) 1. The Bank established policies preventing conflict of interest: <ul style="list-style-type: none"> a. Clause of avoidance of conflict of interest is explicitly indicated in “Procedure for Board of Directors Meetings”. b. Build a database of information of interested parties. The term of secured credit extensions to interested parties shall not be more favorable than those terms offered to other same category customers c. Establishing “Employee Code of Conduct” for prevention of unethical behavior of employee. d. Establishing “Directions on Internal Control and Risk Management in Wealth Management Business” regulating work ethics and disciplines of financial advisors. 	
(4) To enforce ethical management, does the Bank establish effective accounting and internal control systems that are subject to regular inspection of an internal auditing department or audit by externally engaged CPAs?	✓		2. All relevant rules and procedures are on the website www.cotabank.com.tw . (4) The Bank has established accounting system and accounting department. To ensure impartiality of financial statements, Bank’s financial statements has audited by CPAs. The Bank established internal audit control system which is subjected to reexamination and readjustment and an auditing division under the board of directors. Internal audit	
(5) Does the Bank offer internal and external training with regard to ethical management on a regular basis?	✓			

Item	Operating conditions		Deviation from the guidelines for the social responsibilities for TWSE/GTSM Listed Companies" and reasons	
	Y	N		Summary
			control system is implementing by regular and random internal auditing and by external auditing by CPAs. (5) The Bank undertakes training with regard to ethical management and behavioral guidelines on a regular basis. All employees are required to attend. Employees are acknowledged of amendments of relevant regulations.	
3. Status of the Bank's implementation of its offence reporting system: (1) Does the Bank establish a mechanism that incentivizes prosecutors to step forward, put in place channels convenient for taking such action, and assign appropriate personnel to handle such cases? (2) Does the Bank set a standard operating procedure (SOP) for handling reports from prosecutors and adopt a mechanism for keeping confidentiality? (3) Does the Bank adopt measures to make sure that prosecutors do not undergo improper treatment because of their stepping forward?		✓	The bank has not established offence reporting system; nevertheless the Bank has established "Regulations on Personnel Management", "Employee Code of Conduct" and has also established Personnel Evaluation committee governing rewards and penalties system for employee. Also, The Bank has established "Directions on Handling Customer Complaints"	
4. Enforcement of information disclosure Does the Bank disclose the content and implementation status of its Principles for Ethical Management on its own website and the TSE's Market Observation Post System website?	✓		(1) Information of financial, operating and corporate governance of the bank are accessible through website www.cotabank.com.tw (also available in English) (2) The Bank has designated persons to update and disclose company information.	
5. If the Bank has established its own ethical corporate management principles based on the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy in the Bank's implementation of the principles and explain why : None (The Bank is not a listed company in TWSE or OTC)				
6. Other important information to facilitate better understanding of the Bank's implementation of ethical corporate management (e.g., status of the Bank's reviewing and amending its own ethical corporate management principles): In building an ethical management corporate culture, the Bank has set honesty and integrity rules in "Procedure for Board of Directors Meetings", "Regulation on Donation" and "Employee Code of Conduct". All directors and employees promote business with integrity and strong work ethic and to furthermore fulfill social responsibility. The Bank set the compliance system, internal control systems, internal audit, risk management, strengthening competency of the board and supervisors, functioning audit committee, respecting the right of interested parties, improving information transparency, continuing implementing policies that deepens the culture of ethical management in order to achieve sustainable development.				

3-3-8. Corporate Governance Guidelines and Regulations

Please refer to the Bank's website on [Http://www.cotabank.com.tw](http://www.cotabank.com.tw)

3. Corporate Governance

3-3-9. Other Important Information Enhancing Understanding of the State of the Company's

Corporate Governance: None.

3-3-10. Execution of Internal Control System

(1) Statement of Internal Control

COTA Commercial Bank Statement of Internal Control

MARCH 1, 2018

To Financial Supervisory Commission

On behalf of the COTA Commercial Bank, we declare that during the period of January 1, 2017 through December 31, 2017 the Bank did conform to the provisions of the "Guidelines for the establishment of internal control and internal audit systems" by establishing an internal control system and undertaking risk management, and by having auditing carried out by an impartial and independent auditing unit, with reports submitted on a regular basis to the Board of Directors and Supervisors (Audit Committee). Careful assessment shows that with the exception of items listed in the attached chart, the internal control systems of and compliance with laws and regulations by the different units were all implemented effectively. This statement form part of the annual report and publicly disclosed. We understand that we are legally bound to SEC ordinance No.20, 32, 171 and 174.

Attested by

Chairman : Song-Yie Liao

President : Jung-Hsien Chiu

Chief Auditor : Chih-Sheng Hsiao

Chief Compliance Officer : Shih-Jung Chen

(2) Insurance Agent Service Internal Control System Statement

Insurance Agent Service Internal Control System Statement

MARCH 28, 2018

To Financial Supervisory Commission, R.O.C.

In regards to the execution of the internal control system from May 1, 2017 to December 1, 2017, and according to the results of self-evaluation, the Bank claims the following:

1. The Bank acknowledges that the establishment, execution, and maintenance of the internal control system are the responsibility of the board and management level, and the Bank has established this system. The purpose is to offer reasonable regarding the achievement of goals including: the integrity of operations, the reliability of reports, and the compliance of relevant rules and regulations, etc.
2. However well designed, there are inherent limitations to internal control systems: even effective internal control systems are limited to offering reasonable assurance for the above three goals; however, the effectiveness of the internal control system may change according to variations in the environment and situation. The Bank has a self-monitoring mechanism established for its internal control system, which allows the Bank to conduct immediate corrective action once the mistake has been confirmed.
3. The Bank determines if the effectiveness of the design and execution of the internal control system according to "Regulations Governing the Implementation of Internal Control Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies" (hereinafter referred to as "Regulations") established by the Financial Supervisory Commission. According to the judgment criteria for internal control systems stipulated in "Regulations", there shall be at least the following elements: 1. a controlled environment, 2. risk analysis, 3. controlled operations, 4. Information and communication, and 5. Monitoring operations.
4. The Bank investigates the effectiveness of the design and execution of the internal control system by adopting the internal control system judgment criteria listed above.
5. Based on the results of the investigation described in the previous items, the Bank determined that the design and execution of the internal control system (including: the integrity of operations, the reliability of reports, and the compliance of relevant rules and regulations) between the open duration above is effective, and the goals listed above is reasonably confirmed to have been achieved.
6. This Declaration is significant portion in the Company's current year annual report and prospectus, which shall be made available to the general public. If the above involves illegality such as contains false or omitted information, etc., then Company is in violation of Article 20, Article 32, Article 171, Article 174, or any relevant regulations set forth in the ROC Securities and Exchange Act.
7. This Declaration was approved on the Board Meeting on March 28, 2018, by all 14 attending Directors without objection.

Attested by

Chairman : Song-Yie Liao

President : Jung-Hsien Chiu

Chief Auditor : Chih-Sheng Hsiao

Chief Compliance Officer : Shih-Jung Chen

3. Corporate Governance

Items for Improvement and Plan Table of Internal control

As of Dec. 31, 2017

Items for Improvement	Improvement Measure	Target Date
<p>1. Anti-money laundering operations</p> <p>(1) Where a customer makes multiple cash deposits or withdrawals at the same counter, which cumulatively reach above a certain amount. The "Information System Screening for Suspected Transactions" didn't include the transactions of the same customer in different deposit accounts.</p> <p>(2) "Where the total cash deposits or withdrawals into or from the same account on the same business day cumulatively reaches above a certain amount" and "Where a customer make cash deposits or withdrawals that exceeds (or exceeds) at the different counters, deemed as suspicious money laundering activities, the transactions don't appear to be commensurate with the account holder's status and income or are unrelated to the nature of the customer's business, no kept as the transaction record.</p>	<p>1.</p> <p>(1) The same customer has been checked by identity card number.</p> <p>(2) Computerized verification traces for anti-money laundering inspection departments.</p> <p>In addition to the above-mentioned measures, it also organizes briefings, education and training, and hires external professional organizations to conduct education and training.</p>	Listed in main auditing items in 2018.
<p>2. For Banking Act 72(2), loans for residential and corporate buildings, which are not included in the supervision, such as:</p> <p>(1) Non-genuine property owned by a factory that is purchased or constructed for the expansion of production energy by the enterprise, the major uses contained in the building transcript are shops and residential buildings.</p> <p>(2) Compensate for the purchase or construction of a factory loan lender, no substantial effect of expanding production.</p>	<p>2. Has been included in the limit of Banking Act 72(2), concurrently issued a statement "The use of funds for the purpose of expanding production energy for enterprises to purchase or build plant loans", except the limit of Article 72 of the Banking Act.</p>	Listed in main credit auditing items in 2016, keep tracing for 2018.
<p>3. The business unit has on behalf of the customer to take care of the blank seals of the certified seals. Ministry of Finance 85.12.4 Taiwan Finance No. 85354873 letter, violation of the "Forbidden Financial Institutional Staff to Handle Cash Deposits or Deposit Certificates".</p>	<p>3. The Business Unit and the Compliance and Legal Affairs Department have separately strengthened employee education and training. It is forbidden for staff to handle deposits or to keep seals. The auditing department also made a speech in the management meeting for the heads of all units and the relevant personnel of the head office.</p>	Listed in main auditing items from 2018.
<p>4. Dealing with the credit of interested parties, credit conditions must not be better than other credit grantees, the case of comparison is not a credit client within the last year.</p>	<p>4. Published text.</p> <p>Letters asking all units to check the credit conditions of interested parties, choose to compare the cases in the "most recent year".</p>	Listed in main auditing items from 2018.
<p>5. Apply for non-farmers to buy agricultural land loans are not contributing to raising the circumstances, not implemented such as:</p> <p>(1) The funds were used in the purchase plan area farmland. The statement issued by the borrower stated that it was expected to grow crops on the purchase of farmland. However, the purchased farmland was not overgrown with the plan. No review was made and the borrowers were urged to improve.</p>	<p>5. (1) The issued documents have been requested to be implemented by all business units and handled in accordance with the "Regulations of the Non-Farmers Handling Purchase of Farmland Loans". The use of farmland should be planned according to the agreement, and the use of such farmland should be effectively tracked. If the actual situation is not used according to the scheduled plan after the exploration,</p>	

Items for Improvement	Improvement Measure	Target Date
<p>(2) In the case of renewal of credit for the old case, the loan was gradually withdrawn to the borrower who did not issue plans for the use of farmland or did not make amortization.</p> <p>(3) The plan states that it is expected to plant saplings, mold temperament, beautify the environment, and purchase up to 1,000 acres of farmland, while the business of the borrower is not related to agriculture, the use of the project and the business of the borrower, the status of the employment, and the area of the purchased farmland. Not reasonable.</p>	<p>a review record should be made after careful evaluation and the borrower's improvement should be supervised.</p> <p>(2) When applying for the renewal of an old loan, it should be handled according to the former disclosure criteria. If the borrower cannot provide the farmland use plan, it should use the amortization method to gradually recover the loan.</p> <p>(3) In accordance with the former disclosure criteria should be based on the statement of the land use plan issued by the borrower should be carefully evaluated and analyzed for reasonableness.</p>	<p>Listed in main credit auditing items in 2016, keep tracing for 2018.</p>
<p>6. Control of consumer statement and electronic banking services:</p> <p>(1) The information on the reconciliation account kept by the trust opening account, multiple customers are not related to each other, and the same address or e-mail address are retained. There is a fear that the third person will obtain the information from the customer or become a dummy account.</p> <p>(2) E-mail send deposit statement, several months of consecutive mail failures have not been identified.</p> <p>(3) With external networks for fund purchases or redemptions, customers are not related to each other, the IP addresses of the orders are the same, and they are all the same Customer Relationship Manager.</p>	<p>1. Add program controls retained the "Address" and "e-mail" whether or not the same with others, if the same should bear a reasonable relationship do not, branches should check their relationship at the beginning of each month.</p> <p>2. The control program is on-line, and the business management department is responsible for returning the letter to each branch to connect with the customer. If the contact is not up for three times, the notification letter or the setting prompt will be added to the operation counter.</p> <p>3. A new inspection report has been created. The business management department is printed out at the beginning of each month and submitted to the branch for confirmation. If the IP addresses are the same and belong to the CRM, a third person shall make a telephone transaction confirmation and keep recording records.</p>	<p>Listed in main auditing items from 2018.</p>
<p>7. Operational risk notification</p> <p>(1) Not notified within 5 business days from the date of the incident.</p> <p>(2) There was an activity risk event but no notification was reported.</p>	<p>1. The Bank has enhanced the "Points for the management of operations risk event notifications" of the Bank. The Risk Management Center also holds an awareness class. All units are required to report operational risk events and report on the management meetings.</p> <p>2. Notified.</p>	<p>Listed in main auditing items from 2018.</p>



3. Corporate Governance

(2) CPA Audit Report

Pursuant to ordinance article 28 of the “Guidelines for the Establishment of Internal Control and Internal Audit Systems”, the Bank arranged KPMG certified public accountants to audit performance of internal control during the period of Jan. 01, 2016 through Dec. 31, 2017.

The audit report of the Certified Public Accountant concluded as follows:

With the exception of suggested items to improve, no major deficit is found (attaching homepage of auditor’s report and suggestion statement).

Independent Auditors’ Report

March 28, 2018

According to the article 28 promulgated by Financial Supervisory Commission Executive Yuan, R.O.C. on “Guidelines for the establishment of internal control and internal audit systems”, when a bank engages an accountant to audit its annual financial statements, it shall also ask the same accountant to audit its internal control system and express opinion regarding the accuracy of information provided in the financial statements as well as the implementation of the Bank’s internal control system, regulatory compliance system, and the appropriateness of bank’s bad debt reserve policy.

On behalf of the KPMG, we accept being a consignor of COTA Commercial Bank to audit its internal control system and express opinion in accordance with regulations during the period of January 01, 2017 through December 31, 2017 as attaching the range and result of audit report.

The audit report is intended only to present the “Financial Supervisory Commission Executive Yuan, R.O.C.” and provide authorized persons.

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, handwritten font.

Accountant
Shi-Hua, Guo

Suggestion Statement

Year 217

Matter of disclose	Department	Suggestion	Opinion of Administration
<p>Deposit operation</p> <p>The Checking account's name of the closed account is inconsistent with the signature card.</p>	Xitun Branch	It is suggested that the Bank should verifying the information of the seal card, it is really checked whether the data is recorded correctly.	The account information of the account opened during the 1994 was correct, at that time; the account's name of the seal card was manually filled out with a missing word. Current account's name is printed on computers to prevent accidents and superintended that account closing actual to check signature card.
<p>Credit operation</p> <p>The loan case did not fill in COTA Bank of interested parties' checklist.</p>	Xitun Branch	It is suggested that the Bank apply for a loan case, should fill in the COTA Bank of interest parties to check the table.	The stakeholder's checklist has been filled in, and the superintended staff should be sure to fill in the COTA Bank of interested parties' checklist.
The borrower's name is different from the information in the film.	Consumer Banking Department	It is suggested that the Bank should be filled out and maintained.	The name of the borrower of the information bag has been corrected and the superintended staff should really fill in the case film information.
Overdue receivables of relevant forms, the "Loan Loss Case transferred to Bad Debt Report Form" and "Bad Debt Register" reporting number is inconsistent.	SME Banking Centre	It is suggested that the Bank filling out the "Bad Debt Register", it's necessary to verify the reporting number by "Loan Loss Case transferred to Bad Debt report form".	Corrected the number of the "Bad Debt Register", supervised to register in accordance with the reporting number of the "Loan Loss Case transferred to Bad Debt report form".
<p>Information operation</p> <p>Ex-serving officer's account permission management issues</p> <p>1. After checking the "Transition of Online Host Operation Accounts" and "System Account Change Application" of the resigned personnel, it was found that the last day was 2017/5/31, but its online hosting operation account was deleted on 2017/6/5 and no application record was postponed for deletion of the account.</p> <p>2. After checking the list of host user accounts, it was found that the account with the leave of absence's employee was not deleted or disabled (The member's access control card was not recovered).</p>	IT Management Office	It is advisable to remove the account privilege immediately upon due diligence.	<p>1. Person in charge: Assistant Manager Yang Wei Sheng Estimated complete date:2018.3.31 Expected execution method: Set up information office personnel separation procedures</p> <p>2. Person in charge: Assistant Manager Yang Wei Sheng Estimated complete date: Completed Expected execution method: Like 1, in addition, the access control system cancels the card number.</p>
<p>Program revision and online process control issues</p> <p>After consulting the ITO Assistant Manager Yang Wei Sheng checking the "Program Transaction", most of the current program changes were tested and accepted by it, only system development or major program change projects will require users to test and accept.</p>	IT Management Office	It is suggested that the application documents for the revision of the system program should be designed to be tested and accepted by the user to confirm that the changes meet the needs of the user and retain the audit trail.	Person in charge: Assistant Manager Yang Wei Sheng Estimated complete date:2018.12.31 Expected execution method: Research as far as possible by the user test and acceptance

3. Corporate Governance

Matter of disclose	Department	Suggestion	Opinion of Administration
<p>Access control issues</p> <p>The fire equipment inspection records reviewed in 2017.5.15 and 2017.5.17 were compared with the "Computer Room Entrance and Exit Management the Registration Book" found that when a tester entered the test room, not filled in.</p>	IT Management Office	It is suggested that non-computer room authorized personnel enter or exit, relevant documents should be filled out according to the relevant operating specifications.	<p>Person in charge: Assistant Manager Yang Wei Sheng (Operation group and authority)</p> <p>Estimated complete date: Improved</p> <p>Expected execution method: The operation group does perform registration of people entering and leaving. And no follow-up situation.</p>
<p>Application System Password Security Control Issues</p> <p>After reviewing the security control principle setting of the core system, it was found that the relevant password security control was not established.</p>	IT Management Office	It is suggested that according to the "Financial Institutions Information System Security Benchmarks and Instructions for Use", account password control principles should be established to enhance password security and reduce the risk of password cracking.	<p>Person in charge: Chiu Ling Yu</p> <p>Estimated complete date: 2018.5.31</p> <p>Expected execution method: User account login control changed to cardmember authentication.</p>
<p>ATM hard disk scrap control issues</p> <p>In 2017.10.20, consulting management group Assistant Manager Mr. Yang to check the branch's ATM that needed to be replaced each year, found that one hard disk was not on the list of degaussed hard drives. However, re-inquired on 2018.1.2, the disc was kept by the system group Junior Manager Mr. Ji until 2017.11.5. After that, it will be stored and prepared for demagnetization.</p>	IT Management Office	It is suggested that establish related ATM hard disk abandon control operations, also maintain relevant records to ensure that all hard disks that have been abandoned for demagnetized.	<p>Person in charge: Yang Wei Sheng</p> <p>Estimated complete date: Completed</p> <p>Expected execution method: If ATM abandon operation, the management group must be notified to make a hard disk recovery control record.</p>

3-3-11. Cases or Penalties due to Infliction of Laws and Regulations over the Past 2 Years:

1. Any indictment of a responsible person or employee by a prosecutor for an offense related to the occupation: None
2. Any fine imposed by the FSC for violation of a law or regulation: None
3. Any matters in which sanctions were imposed by the FSC pursuant to Article 61-1 of the Banking Act:

The Bank's handling of Anti-money laundering failed to determine the level of customer risk assessment and the lack of verification of suspected money laundering characterization transactions and the retention of relevant verification trails.

 - (1) The verification operation was replaced by computer input instead of manual entry and case investigations was carried out according to the characterization of the records and were recorded separately, and the relevant verification traces were retained.
 - (2) Increase customer risk assessment control procedures and practices.
 - (3) Continuing education and publicity.
4. Any security incident arising from employee infidelity or material contingencies (e.g. fraudulent acquisition, theft, misappropriation, or robbery of assets; forgery of documents or securities; acceptance of a bribe; losses from natural disaster; losses from external causes; hacker attack, data theft, or leak of trade secrets or customer data; or other such material incidents) or failure to faithfully abide by the Directions for Maintenance of Security at Financial Institutions. If actual losses, whether singly or in aggregate, exceed TWD50 million in any given year, disclose the nature and amount of the loss: None
5. Other matters that must be disclosed pursuant to FSC designation: None

3-3-12. Major Resolutions of Shareholders Meeting or Board of Directors Meeting in Recent Year

3-3-12-1. Shareholders Meeting

Year	Nature of Shareholders Meeting	Convoking Date	Major Resolutions
2017	Regular Shareholders' Meeting	June 16, 2017	The earnings distribution of year 2016 and capital increase by earnings and issuance of new shares.
2017	Interim Shareholders Meeting	December 22, 2017	Held eighth Directors re-election.

3-3-12-2. Board of Directors Meeting

3-3-12-2-1. Major Resolutions

- ◆ Held the seventh and 9 times Board of directors.
 - (1) Proposal of Capital Increase by earnings of 2016.
 - (2) Proposal of Directors' remuneration and employee compensation distribution of 2016.
 - (3) Proposal of Issue total NT\$1 billion capital increase by cash.
 - (4) Proposal of Reinvestment, COTA Bank insurance Brokers Co., Ltd., directors and supervisors and to extend the term of office doesn't reassign their duties to the date of merger (expected date on May 1, 2017).
- ◆ Proposal of Interest credit case for Executive director Kuo-Chao Hsiao by Board of Directors held on June 28, 2017.
- ◆ Proposal of Stakeholder's credit case for Director Chih-Peng Yang by Board of Directors held on June 28, 2017.
- ◆ Proposal of Apply to the competent authority for issue total NT\$1.2 billion subordinate of bank debentures by Board of Directors held on November 9, 2017.

3-3-12-2-2. The Directors or Supervisors have different opinions to the board of directors meeting through the major resolution, and has the record or announce by statement:

Cases of action: Applying cash to increase the capital for issuance of new shares, proposing two cases of case A of 800 million and case B of 1 billion.

Resolution results and process:

In this case, 12 of the directors attended the meeting and 2/3 of them agreed to pass the case B.

An independent director Sung-Cheng Huang was in favor of the cash to increase the capital in the original case.

3-3-12-2-3. Corporate Governance Guidelines and Regulations

Please refer to the Bank's website on

<http://www.cotabank.com.tw/cotabank/announce/expose/expose.htm>

3-3-13. Disclosures of the Resignation or Dismissal of Managerial Officers in Charge of Financial or Accounting Reports:

Position	Name	Starting date	Dismissal date	Resign or dismissal date
President	Chin-Ting Chang	October 1, 2009	April 30, 2017	Retire
President	Jung-Hsien Chiu	May 01, 2017	-	

Note: Managerial Officers means chairman, president, treasurer, accounting supervisor, and head of internal auditor

3. Corporate Governance

3-4. Information on the Certified Public Accountant

3-4-1. Information on the Professional Fees of the Certified Public Accountant

3-4-1-1. Disclosure of the Accountant's Fee

Accountant Firm	Name of Accountant		Period of Audit	Remarks
KPMG	Guo, Shi-Hua	Mei, Yuan-Chen	Year 2017	

Unit: TWD thousand

Tier	Item	Auditing Fee	Non-Auditing Fee	Total
1	Below 2,000 thousand	V		
2	2,000 thousand ~ 4,000 thousand		V	
3	4,000 thousand ~ 6,000 thousand			V
4	6,000 thousand ~ 8,000 thousand			
5	8,000 thousand ~ 10,000 thousand			
6	10,000 thousand and above			

3-4-1-2. Fees paid for non-auditing services account for a proportion equal to one-quarter or above of auditing:

Unit: TWD thousand

Accountant Firm	Name of Accountant		Auditing Fee	Non-Auditing Fee					Period of Audit by Accountant	Remarks
				System Design	Corporate Registers	Human Resources	Others (note)	Sub-Total		
KPMG	Guo, Shi-Hua	Mei, Yuan-Chen	1,990		190		2,700	2,890	2017	

Note: non-auditing fee including special audit on personal data protection and AML/CFT of TWD2,520 thousand, review of capital increased by cash and surplus turned capital TWD130 thousand, review of relevant attachments on financial debentures TWD50 thousand.

3-4-1-3. Whether the Bank changes its accounting firm and the amount of fees paid for auditing services during the year in which the change is made are lower than for the previous year: None

3-4-1-4. Whether the amount of fees paid for auditing services is lower than for the previous year by 15% or above: None.

3-4-2. Information of Accountants change: None.

3-4-3. Whether the Bank's chairman, president, or any managerial officer in charge of finance or accounting matters has in the most recent year held a position at the accounting firm of its certified public accountant or at an affiliated enterprise of such accounting firm: None

3-5. Change in Shareholdings and Pledged

3-5-1. Changes in Shareholdings of Directors, Supervisors, Executive Officers, and Shareholders conform to the Regulations Governing a Same Person or Same Concerned Party Holding the Issued Shares with Voting Rights over a Particular Ratio of a Bank, Article 11

Title	Name	2017		Up To February 28, 2018		Remark
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged	
Chairman	Song-Yie Liao	8,096,494	0	0	0	Major Shareholder
Managing Director	Ying-Che Chang	102,271	0	0	0	
Managing Director	Xien-De Lai	141,850	0	0	0	
Managing Director	Chuan Cheng Hat Co., Ltd. Representative: Min-Chang Lin	2,052,859 8,027	0 0	0 0	0 0	Major Shareholder
Managing Independent Director	Kun-Hsien Lin	(1,947,320)	0	0	0	
Director	Chun-Chieh Wang	797,733	0	0	0	Major Shareholder
Director	Chien-Chung Lai	467,325	0	0	0	
Director	Chia De Development and Investment Co., Ltd. Representative: Chih-Peng Yang	37,901 (2,251,586)	0 0	0 0	0 0	Major Shareholder
Director	Jin Yu Hua Investment Co., Ltd. Representative: Kang-Wei Chang	35,362 (3,422,142)	0 177,858	0 0	0 0	
Director	Jin Yu Hua Investment Co., Ltd. Representative: Chin-Chih Tseng	35,362 (253,239)	0 46,761	0 0	0 0	
Director	Jin Yu Hua Investment Co., Ltd. Representative: Hua-Chiang Chi	35,362 0	0 0	0 0	0 0	
Director	Jin Yu Hua Investment Co., Ltd. Representative: Ching-Wen Cheng	35,362 49	0 0	0 0	0 0	
Director	Huasan Investment Co., Ltd. Representative: Chi-Chang Lir	(788,207) 0	663,638 0	0 0	0 0	
Independent Director	Po-Yao Chi	94,996	0	0	0	
Independent Director	Tsung-Ta Kuo	0	0	0	0	
President	Jung-Hsien Chiu	232,245	0	0	0	
Senior Executive Vice President	Shih-Jung Chen	129,519	0	0	0	
Chief Auditor	Chih-Sheng Hsiao	196,901	0	0	0	
Senior Executive Vice President Department General Manager	Yun-Ching Wang	100,819	0	0	0	

3. Corporate Governance

Title	Name	2017		Up To February 28, 2018		Remark
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged	
Senior Executive Vice President	Huan-Mou Cheng	32,666	0	0	0	
Executive Vice President Department General Manager	Shi-Jian Zhang	146,998	0	0	0	
Executive Vice President Department General Manager	Wen-Jung Chen	76,177	0	0	0	
Department General Manager	Kuang-Hsiung Huang	75,557	0	0	0	
Department General Manager	Wei-Bin Lin	55,619	0	0	0	
Department General Manager	Chih-Peng Yang	(2,251,586)	0	0	0	Major Shareholder
Department General Manager	Ming-Heng Zhan	54,310	0	0	0	
Department General Manager	Quan-Hong Yang	42,046	0	0	0	
Department General Manager	Hung-Tsang Chiang	62,963	0	0	0	
Department General Manager	Jun-Sheng Lin	6,869	0	0	0	
Department General Manager	Chang-Chieh Lin	259,903	0	0	0	
Department General Manager	Chi-Nan Huang	28,503	0	0	0	
Department General Manager	Jun-Long Tsai	42,728	0	0	0	
Department General Manager	Chih-Huang Huang	80,837	0	0	0	
Department General Manager	Yun-Xie Chen	19,135	0	0	0	
Department General Manager	Chen-Chuan Kuo	0	0	0	0	
Branch General Manager	Ling-Chen Ting	126,878	0	0	0	
Branch General Manager	Jui-Sen Liao	36,180	0	0	0	
Branch General Manager	Zheng -Xian Xie	67,603	0	0	0	
Branch General Manager	Mei-Ling Shih	43,495	0	0	0	
Branch General Manager	Min-Chang Lin	8,027	0	0	0	
Branch General Manager	Mao-Sheng Huang	63,319	0	0	0	
Branch General Manager	Chi-Shen Huang	109,758	0	0	0	
Branch General Manager	Shi-Tung Chang	139,348	0	0	0	
Branch General Manager	Jian-Chen Xu	114,049	0	0	0	
Branch General Manager	Hung-Chi Tung	131,186	0	683	0	
Branch General Manager	Chang-Cheng Chen	52,486	0	0	0	
Branch General Manager	Chia-Wen Ke	92,456	0	0	0	
Branch General Manager	Tzu-Hsiu Liang	24,506	0	0	0	
Branch General Manager	Hsi-Hsien Wang	54,295	0	0	0	
Branch General Manager	Cheng-Hao Wu	36,173	0	0	0	

Title	Name	2017		Up To February 28, 2018		Remark
		Net Change in Shareholding	Net Change in Shares Pledged	Net Change in Shareholding	Net Change in Shares Pledged	
Branch General Manager	Shu-Chen Shih	47,995	0	0	0	
Branch General Manager	Shih-Tsung Liu	35,572	0	0	0	
Branch General Manager	Hong-Yi Chen	10,171	0	0	0	
Branch General Manager	Kuo-Mao Wu	18,578	0	0	0	
Branch General Manager	Shih-Chao Li	44,249	0	0	0	
Branch General Manager	Ming-Yung Yu	49,076	0	0	0	
Branch General Manager	Ping-Hung Chuang	32,471	0	0	0	
Branch General Manager	Hsien-Hsun Chiang	44,617	0	0	0	
Branch General Manager	Ming-Feng Wu	23,867	0	0	0	
Branch General Manager	Tien-Long Yang	46,515	0	0	0	
Branch General Manager	Po-Hsun Chang	21,405	0	0	0	
Branch General Manager	Chung-Yi Hsu	62,843	0	0	0	
Branch General Manager	Yung-Hung Tsao	32,104	0	0	0	

Note 1: If holding over 10% of the total shares of the corporation shall be remarked as major shareholder and shall respectively enumerate such fact.

Note 2: In the event that the opposite party of share transfer or share pledge is a related party, please additionally fill up the following table.

Information of Shareholding Transfer: None

Shares Pledged Information

As of Dec. 31, 2017

Name (Note 1)	Reason for change of pledge (Note2)	Date of change	Counterparty	Counterparty's relationship with the financial holding company, the directors, supervisors, and shareholders with more than 10% ownership interest.	Number of shares	Amount of pledge/redemption
Kang-Wei Chang	Pledge	2017/09/22	The Second Credit Cooperative of Keelung	None	177,858	
Chin-Chih Tseng	Pledge	2017/09/22	The Second Credit Cooperative of Keelung	None	46,761	
Huasan Investment Co., Ltd.	Pledge	2017/09/15	The Second Credit Cooperative of Keelung	None	550,000	
Huasan Investment Co., Ltd.	Pledge	2017/09/22	The Second Credit Cooperative of Keelung	None	113,638	
Jin Yu Hua Investment Co., Ltd.	Pledge	2016/11/16	Sunny Bank Shihpai Branch	None	884,059	

Note 1: Fill in the Directors, Supervisors, General Manager and the names of shareholders holding more than 10 percent.

Note 2: Fill in the Pledge or Redemption

3. Corporate Governance

3-5-2. Related Party Transaction of First Ten Largest Shareholders

As of Dec. 31, 2017

Name	Shares Owned		Shares Owned by Spouses and Minors		Shares Held under Surrogate A/C		Top ten shareholders who meet the related party disclosures term of FASC NO.6 shall disclose name and relationship		Remark
	No. of Shares	Shares Held %	No. of Shares	Shares Held %	No. of Shares	Shares Held %	Name	Relationship	
Ho Chu Investment Co., Ltd. Representative: Chia-Hung Lin	73,755,223	9.67							
Song-Yie Liao	52,761,419	6.92	1,356,182	0.18			Chuan Cheng Hat Co., Ltd Chuan Chi Co., Ltd. (Ching-Ling Liu)	Director Major shareholder Spouse	
Kuo-Chao Hsiao	18,143,650	2.38							
Chuan Chi Co., Ltd. Representative: Ching-Ling Liu	15,881,655	2.08					Song-Yie Liao	Major shareholder Spouse	
Chih-Peng Yang	13,912,658	1.82	102,472	0.01					
Chuan Cheng Hat Co., Ltd. Representative: Ching-Ling Liu	13,377,618	1.75					Song-Yie Liao	Director Spouse	
Chun-Chieh Wang	10,741,068	1.41							
Yuan Ta Chung Machinery Co., Ltd. Representative: Chi-Jung Huang	10,233,801	1.34							
Jun Heng Investment Co., Ltd. Representative: Shih-Ying Hsiao	10,035,544	1.32							
Dong-Po Xie	7,609,652	1.00	387,064	0.05					

3-5-3. Consolidated Shareholdings:

Unit: share; %

Investees (Note)	Direct Investment		Indirect Investment		Total	
	No. of Shares	Shares Held	No. of Shares	Shares Held	No. of Shares	Shares Held
Taiwan Financial Asset Service Corp.	5,000,000	2.94%	0	0	5,000,000	2.94%
Taiwan Asset Management Corp.	7,500,000	0.57%	0	0	7,500,000	0.57%
Sunny Asset Management Corp.	25,302	0.42%	0	0	25,302	0.42%
Taiwan Depository & Clearing Corp.	299,811	0.08%	0	0	299,811	0.08%

Note: The Bank's investment pursuant to article 74 of the Banking Act.

4 > Capital Arrangement



4. Capital Arrangement

4-1. Capital Shares and Dividends

4-1-1. Source of Capital

As of Feb. 28, 2018; Shares Held (%)

Month/Year	Issuing price (TWD)	Registered Capital		Paid-in Capital		Remark	
		Shares	Amount	Shares	Amount	Source	Other
July 2017	10	1,000,000,000	10,000,000,000	662,552,304	6,625,523,040	Increased from retained earnings of TWD254,827,800	
October 2017	10	1,000,000,000	10,000,000,000	762,552,304	7,625,523,040	Cash capital increase TWD1,000,000,000	

Information for comprehensive reporting: None

4-1-2. Shareholder Structure

As of Dec. 31, 2017

Category	Government Agency	Financial Institution	Other Institution	Individual	Foreign Institution and Foreigner	Total
Number of Shareholders	1	1	430	64,549	40	65,021
Number of Shares	1,374	13,777	194,089,047	567,165,450	1,282,656	762,552,304
Percentage	-	-	25.45%	74.38%	0.17%	100%



4-1-3. Distribution of Shareholders' Equity

4-1-3-1. Common Stock: par value of TWD10

As of Dec. 31, 2017

Tier	Number of Shareholders	Number of Shares	Percentage (%)
1 – 999	46,636	11,482,238	1.51%
1,000 - 5,000	10,249	19,481,107	2.55%
5,001 - 10,000	1,786	12,338,796	1.62%
10,001 - 15,000	1,795	23,889,406	3.13%
15,001 - 20,000	1,415	24,174,292	3.17%
20,001 - 30,000	1,014	23,699,247	3.11%
30,001 - 40,000	312	10,721,659	1.41%
40,001 - 50,000	245	10,748,778	1.41%
50,001 - 100,000	717	51,657,220	6.77%
100,001 - 200,000	452	61,689,412	8.09%
200,001 - 400,000	224	60,518,491	7.94%
400,001 - 600,000	61	29,712,374	3.90%
600,001 - 800,000	20	13,867,929	1.82%
800,001 - 1,000,000	22	19,839,098	2.60%
1,000,001 and above	73	388,732,257	50.97%
Total	65,021	762,552,304	100.00%

4-1-3-2. Preferred Stock: None

4-1-4. List of Major Shareholders

As of Dec. 31, 2017

Name	Number of Shares	Percentage (%)
Ho Chu Investment Co., Ltd.	73,755,223	9.67%
Song-Yie Liao	52,761,419	6.92%
Kuo-Chao Hsiao	18,143,650	2.38%
Chuan Chi Co., Ltd.	15,881,655	2.08%
Chih-Peng Yang	13,912,658	1.82%
Chuan Cheng Hat Co., Ltd.	13,377,618	1.75%
Chun-Chieh Wang	10,741,068	1.41%
Yuan Ta Chung Machinery Co., Ltd.	10,233,801	1.34%
Jun Heng Investment Co., Ltd.	10,035,544	1.32%
Dong-Po Xie	7,609,652	1.00%

Note: Disclose the ratio of holding shares above 1%.

4. Capital Arrangement

4-1-5. Market Value, Net Worth, Earnings, and Dividend per Share in Recent 2 Years

Unit: TWD

Item		Year	2016	2017	Up To Feb. 28, 2018
Market Value	Highest		N/A	N/A	N/A
	Lowest		N/A	N/A	N/A
	Average		N/A	N/A	N/A
Net Worth	Before Distribution		13.37	13.50	13.56
	After Distribution		12.43	(Note 4)	(Note 2)
Earnings	Weighted Average Shares		662,552,305	689,401,619	762,552,304
	Earnings per Share	Before Adjust	1.12	1.33	0.16
		After Adjust	1.08	(Note 4)	(Note 2)
Dividend (Note 1)	Cash Dividends		0.20	0.30	N/A
	Stock Dividends	Retained Earning	0.62	0.40	N/A
		Capital Reverse	0	0	N/A
	Dividends in Arrear		0	0	N/A
ROI Analysis (Note 3)	P/E Ratio		N/A	N/A	N/A
	P/D Ratio		N/A	N/A	N/A
	Cash Dividend Yield		N/A	N/A	N/A

Note 1: Dividends of serial year present earnings assignment of previous year.

Note 2: Year 2018 hasn't ended.

Note 3: Not applied as the Bank is not a listed company.

Note 4: Year 2017 distribution number is to be confirmed after the approval of board of directors and the shareholder meeting.

4-1-6. Dividend Policy and Executive Status

In accordance with guidelines of the Bank's articles of incorporate, our dividend policy is carried out by the access of "assignable earning distribution. After appropriate legal reserves and provide a special earnings reserve, we distribute the full earnings to the shareholders.

According to article 34 of the Bank's articles of incorporate, earnings of fiscal year should pay taxes and offset prior year's losses and appropriate 30% as legal reverse in turns. but the accumulated legal reserve equals or exceeds a Bank's paid-in capital or the Bank is sound in both its finance and business operations and have set aside legal reserve in compliance with the Company Law, the restrictions stipulated in the preceding paragraph shall not apply.; If there is still surplus, the company shall either provide a legal reserve and a special earnings reserve from the surplus, or reverse existing special earnings reserves into the opening balance of undistributed earnings, and the distribution of profits was proposed by Board of Directors and decided to distribute dividends to shareholders in the shareholders' meeting.

Before the legal reserve is accumulated up to the total capital, the highest cash dividends are limited to not over 15%.

Dividend distributions include cash dividends but not less than 10%, and the rest of dividends are stock dividends. If cash dividends less than TWD0.1, they will not be distributed, except approval by the shareholder's meeting.

Resolution: Our bank has adopted a Proposal for Distribution of 2017: cash dividends TWD190,638,070 stock dividends TWD457,531,380

4-1-7. Impact of Stock Dividends to Market Value and Earnings per Share:

UNIT: Thousands of TWD

Year/Item		2017 (Estimate)
Beginning Paid-in capital (TWD)		7,625,523
Stock and Cash Dividends for Current	Cash dividends per share	0.25(Note 2)
	Stock dividends per share for capital increment from retained earnings (Shares)	0.60(Note 2)
	Stock dividends per share for capital increment from capital surplus (Shares)	-
Changes in Performance	Operating profit	N/A (Note 1)
	Change in operating profit compared with previous year	
	After-tax profit	
	Change in after-tax profit compared with previous year	
	Earnings per share (TWD)	
	Change in earnings per share compared with previous year	
Conjectural Earnings per Share and Price/Earnings Ratio	If retained earnings for capital increment all converted to cash dividends	Earnings per share (TWD)
		Average annual return on increment
	If no increment using capital surplus	Earnings per share (TWD)
		Average annual return on increment
	If no increment using capital surplus but switch to cash dividends	Earnings per share (TWD)
		Average annual return on increment

Note 1: According to the amendment by the Securities and futures commission, Ministry of Finance on Feb. 1, 2000 under Doc. No.00371, a public company that publishes a financial forecast in accordance with these Regulations may publicly disclose it on the company website.

Note 2: Cash and stock dividends of this year has not yet been approved by the Shareholders' Meeting.



4. Capital Arrangement

4-1-8. Remuneration to Staff, Directors and Supervisors:

4-1-8-1. Pursuant to the amendment of article 34 of the Bank's Articles distributes bonus and remuneration.

- to appropriate 6% as employee remuneration.
- to appropriate the remuneration of the directors and supervisors do not exceed 2%

4-1-8-2. The difference, if any, between the amount estimated in the current-year and the amount approved by stockholders in the subsequent year shall be accounted for as a change in accounting estimate, and charged to profit or loss in the current year.

4-1-8-3. The dividend distributions proposed at the shareholders' meeting as follows:

- employee cash remuneration: TWD69,305 thousand
- director/supervisor remuneration: TWD23,102 thousand
- employee stock remuneration: None

4-1-8-4. In 2016, the distribution amount of employee remuneration was TWD55,644 thousand, director/supervisor remuneration: TWD18,548 thousand with no difference as resolution of the board of directors.

4-1-9. Repurchase Stocks: None



4-2. Issuance of Bank Debentures

Type of Bank Debt	1st Unsecured Subordinate Financial Debentures in 2011	1st Unsecured Subordinate Financial Debentures in 2016
Date Approved by Central Competent Authority, Document No.	Financial Supervisory Commission Executive Yuan, R.O.C. September. 10, 2010 Document No.0990361150	Financial Supervisory Commission Executive Yuan, R.O.C. September. 5, 2016 Document No.10500214440
Date of Issue	March 29, 2011	November 16, 2016
Denomination	500 thousand	500 thousand
Issue and transaction Place	Taiwan, R.O.C.	Taiwan, R.O.C.
Currency	New Taiwan Dollar	New Taiwan Dollar
Issue Price	100 dollars	100 dollars
Total Amount	1.5 billion	1.8 billion
Interest Rate	Type A: Fixed rate 3.2% Type B: Current rate 1.65% plus the Bank's board index rate of time saving deposits.	Fixed rate 2.1%
Term	7 years, matured on March 29, 2018	7 years, matured on November 16, 2023
Priority of Payment	The right to receive payment for sums due under the debenture (including principal and interest) takes precedence only over that of bank shareholders for distribution of surplus assets and is subordinate to the claims of all other creditors of the Bank.	The right to receive payment for sums due under the debenture (including principal and interest) takes precedence only over that of bank shareholders for distribution of surplus assets and is subordinate to the claims of all other creditors of the Bank.
Guaranteeing Institution	None	None
Trustee	None	None
Underwriter	None	None
Certifying Lawyers	Wen-Cheng Chiang	Wen-Cheng Chiang
Certifying CPA	Shi-Hua Guo	Shi-Hua Guo
Certifying Financial Institution	None	None
Method of Redemption	Principal paid upon maturity	Principal paid upon maturity
Unredeemed Balance	1.5 billion	1.8 billion
Preceding Year's Paid-in capital	4,180,451,110 (2010)	5,998,771,420 (2015)
Preceding Year's Post-Audit Net Value	5,111,185,293 (2010)	7,916,736,553 (2015)
Performance Status	Normal	Normal
Sellback or Early Redemption conditions	None	None
Rollover and Exchange Conditions	None	None
Restrictive Conditions	Subordinated	Subordinated
Capital Utilization plan	Raise the Bank's owner's capital and BIS ratio	Raise the Bank's owner's capital and BIS ratio

4. Capital Arrangement

Type of Bank Debt	1st Unsecured Subordinate Financial Debentures in 2011	1st Unsecured Subordinate Financial Debentures in 2016
Amount of Registered Issuance Plus Outstanding Balance Already Issued as Ratio of Net Final Value of Issuance in Preceding Year.	29.35%	22.74%
Whether or not recorded as qualified capital and type	Yes, Tier 2 Capital	Yes, Tier 2 Capital
Name of Rating Institution, Date of Rating, and Rating Given	Taiwan Ratings Corp./ March 22, 2011 / Debt Rating: twBBB	Sales targets exclude non-professional investors. According to Regulations Governing Issuance of Bank Debentures by Banks Article 6 Item 2, Debt Rating is not required. At that time, COTA Bank Rating Data: Long-term : twBBB+, Short-term :twA-2, Outlook: Stable (Taiwan Ratings Corp. January 15, 2016)

4-3. Preferred Stock: None

4-4. Issuance of Depositary Receipt: None

4-5. Employee Stock Option Plan: None

4-6. Status of Employee Restricted Stock: None

4-7. Merging or Acquisition of Other Financial Institutions: None

4-8. Utilization of Capital Plan:

Issued 100 million registered common stock for capital increase by cash in 2017, and total amount 1 billion had been raised on Sep.15, 2017. It increases qualified capital, capital adequacy ratio and adding long-term capital with original plans for loan business and profit.

5 > Business Operation



5. Business Operation

5-1. Business Report

5-1-1. Business Results

5-1-1-1. Deposits

Unit: TWD thousand

Items \ Year	31 Dec 2017		31 Dec 2016		Increase (Decrease) Amount	Increase (Decrease) %
	Amount	%	Amount	%		
Checking Deposits	2,318,320	1.61%	2,582,813	1.85%	(264,493)	(10.24)
Demand Deposits	17,673,061	12.24%	16,569,535	11.85%	1,103,526	6.66
Foreign currency Demand Deposits	1,645,479	1.14%	1,240,040	0.89%	405,439	32.70
Demand Savings Deposits	36,948,681	25.60%	35,381,942	25.31%	1,566,739	4.43
Employees Demand Savings Deposits	824,477	0.57%	801,519	0.57%	22,958	2.86
Time Deposits	21,183,812	14.68%	23,466,510	16.79%	(2,282,698)	(9.73)
Foreign currency Time Deposits	1,089,007	0.75%	736,604	0.53%	352,403	47.84
Negotiable Certificates of Deposit	8,533,500	5.91%	3,940,000	2.82%	4,593,500	116.59
Time Savings Deposits	54,112,208	37.49%	55,042,354	39.38%	(930,146)	(1.69)
Remittances	6,945	0.01%	11,775	0.01%	(4,830)	(41.02)
Total	144,335,490	100.00%	139,773,092	100.00%	4,562,398	3.26

5-1-1-2. Loans

Unit: TWD thousand

Items \ Year	31 Dec 2017		31 Dec 2016		Increase (Decrease) Amount	Increase (Decrease) %
	Amount	%	Amount	%		
Export bills	11,119	0.01%	921	0.00%	10,198	1,107.27
Overdraft	1,936	0.00%	930	0.00%	1,006	108.17
Short-term Loan	3,685,684	3.16%	3,968,215	3.48%	(282,531)	(7.12)
Guarantee overdraft	64,549	0.05%	58,114	0.05%	6,435	11.07
Short-term secured lending	11,409,962	9.78%	10,521,785	9.24%	888,177	8.44
Medium-term Loan	16,504,611	14.15%	19,055,705	16.72%	(2,551,094)	(13.39)
Medium-term secured lending	53,528,361	45.88%	49,137,140	43.12%	4,391,221	8.94
Long-term Loan	641,975	0.55%	695,497	0.61%	(53,522)	(7.70)
Long-term secured lending	30,655,018	26.28%	30,388,193	26.67%	266,825	0.88
Collection money	157,877	0.14%	119,388	0.11%	38,489	32.24
Total	116,661,092	100.00%	113,945,888	100.00%	2,715,204	2.38

5-1-1-3. Foreign Exchange Business (OBU included)

Unit: USD thousand

Items	Year	2017 Amount	2016 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Foreign currency Deposit		91,614	61,236	30,378	49.61
Foreign currency Loan		34,754	21,553	13,201	61.25
Import and export business		29,138	18,175	10,963	60.32
Exchange business		288,675	166,929	121,746	72.93

5-1-1-4. Trust Business

Unit: TWD thousand

Items	Year	31 Dec 2017 Amount	31 Dec 2016 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Specific domestic and foreign securities investment trust money		4,212,161	4,435,948	(223,787)	(5.04)
Other trust money		217,343	118,074	99,269	84.07
Trust money (total)		4,429,504	4,554,022	(124,518)	(2.73)
Real estate trust		203,010	3,696	199,314	5,392.69
Trust property (total)		4,632,514	4,557,718	74,796	1.64
Other affiliated business		0	0	0	0
Certified business		0	0	0	0

5-1-1-5. Wealth Management Business

Unit: TWD thousand

Items	Year	2017 Amount	2016 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Fund fee income		17,841	10,376	7,465	71.94
Insurance fee income		127,602	165,688	(38,086)	(22.99)
Total		145,443	176,064	(30,621)	(17.39)

5-1-1-6. Credit Card Business

Unit: TWD thousand

Items	Year	2017 Amount	2016 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Cumulative total number of issuers		95,865	94,231	1,634	1.73
Circulation number		15,775	17,073	(1,298)	(7.60)
Amount of consumption		1,425,181	1,353,118	72,063	5.33
Revolving credit balance		27,581	29,335	(1,754)	(5.98)

5. Business Operation

5-1-1-7 Investment Bond and Bills Business

Unit: TWD thousand

Items	Year	31 Dec 2017 Amount	31 Dec 2016 Amount	Increase (Decrease) Amount	Increase (Decrease) %
Government Bond		1,015,946	821,401	194,545	23.68
Short- term of Bills		8,968,517	2,102,052	6,866,465	326.66
Financial Bonds and corporate Bonds		6,330,734	8,948,219	(2,617,485)	(29.25)
Convertible Bond		730,700	1,467,300	(736,600)	(50.20)
CBC certificates of Deposits (include NCD)		15,000,000	15,000,000	0	0

5-1-1-8 The Proportion and Change of Net Income of Operating Business

Unit: TWD thousand

Items	2017		2016	
	Amount	Ratio of Net Income (%)	Amount	Ratio of Net Income (%)
INTN (Interest Income (Net))	2,506,208	83.25	2,401,823	89.23
Service Fee Revenue (Net)	230,686	7.66	249,625	9.27
FIAL (Gains or Losses on Financial Assets (Liabilities) at Fair Value through Profit or Loss)	35,581	1.18	(42,378)	(1.57)
REFI (Realized Gain or Loss on Available- for-Sale Financial Assets)	(9,330)	(0.31)	0	0.00
ASSO (Share of Profit of Associates Accounted for Using Equity Method)	5,634	0.19	26,564	0.99
Reversal of Impairment Loss on Assets	162,574	5.40	0	0.00
XGL (Foreign Exchange Gain or Loss)	(48,616)	(1.61)	28,005	1.04
OREV (Other Revenue except for Interest Income)	27,784	4.24	28,052	1.04
NREV (Net Revenue)	2,910,521	100.00	2,691,691	100.00

5-1-2. Business Plans for year 2018

5-1-2-1. Operation Plans

- To carry out legal compliance positively in the business management and plant deeply in the enterprise culture to be the important cornerstone for continuous operation.
- Strengthening capital structure and operation ability, improving asset quality, implementing risk management and corporate governance, enhancing the ability to undertake long-term risks.
- To provide customers with a more convenient service by enhancing mobile internet banking function continuously and find customer's financial needs for the purpose of improving customer use and penetration rate.
- To develop and build related software and hardware system with the implementation of Computer - Processed Personal Data Protection Law.

- Strengthening risk management to implementation reasonable pricing and uphold the principles of credit 5P in order to maintain high quality of the loan assets.
- Enhance staff training and education to promote professional functions.
- With BANK 3.0 development and by using E business bank service to find out the potential customer and provide exclusive benefits and services.
- With the competent authorities to promote the development of financial technology and regulations, keep develop and improve the electronic access service to expand the digital business and diversified financial service.
- Full investment in better profitability and safety financial commodities and strengthen management of margin funds with interest income and capital gains to improve financial operation performance.
- With budget implementation to make resource utilization more efficient.
- Continuously simplifies accounting operations and streamlining manpower and time.
- Consolidate tax reporting information by electronic way to improve performance and correctness.
- Concerning future growth, the Bank considers relocate branches and broadening channel efficiency.
- Concerning to simplify the operation procedure and internal control, review and improve business regulations any time to optimizing adjustment, promote service quality and work efficiency.
- Maintaining relationship with customers, improving transaction channels to satisfy customers' demand to keep expand saving deposits, consumer banking, corporate loans, wealth management, trusts, foreign exchange, international banking, and e-banking. And adjusting structure, process for enlarging economy of scale and enhancing operating efficiency to reduce costs and increase profits.
- Implementation of paperless and save on photocopying to get costs down.

5-1-2-2. Consumer Banking

- Strictly carry out SOP of credit and loan business, strengthen detailed evaluation of credit facility, review and follow-up outstanding cases after credit release and keep track of the performance of customer management and financial control to avoid or reduce losses and maintain credit assets.
- Making good use of internal credit rating system to adjust factors and weights moderately after collecting sufficient quantitative data and summarize reasons for timing and overdue of default by using credit default database.
- Continuously enhance staff education and training, cultivate major personnel in electronic financial business and strengthen ability of branches in marketing of digital financial service.
- To develop mobile payment business and participate in FISC planning of QR Code application, facilitate customer payment requirements to expand service and create business growth opportunities.
- As widespread use of internet and mobile devices, revise the version to close customer needs to reach customer satisfaction and use willingness.
- Planning to provide interactive mobile bill in addition to reconciliation information, as well as business advice and real-time contributions and other functions to facilitate customers to use and enhance relationship.
- To create optimized business model to upgrade Bank's competition so as to cope with external changes on competition and regulations to make maximum profits.
- Continuous planning business operations, electronic and paperless, into the virtual and integrated service model, improve service efficiency.
- Selecting target customers to provide specific benefits and services.
- Plan to have a standardized, automatic, paperless back office to achieve more competitive and efficient lending procedure. At the same time, this aims to save operational cost and shorten operating time targeting to reach the purpose of economy of scales.

5. Business Operation

5-1-2-3. Corporate Banking

- Following the policies of the government, continuously promoting SME loans to satisfy customers' needs, enlarging customers' base and economy of scale, and enhancing market share of the corporate financing.
- To strengthen risk management mechanism based on Basel III principal so as to control debt ratio and upgrade credit quality.
- Ensuring claims, increasing secure percentage and reducing percentage of credit loans. If the loan met the requirement of the "Small and Medium Enterprise Credit Guarantee Fund", it should apply the Fund as a guarantor for reducing capital charge.
- Plan to build up a 24-hour corporate network banking platform to provide funds transfer, investment and financial services to meet customer capital demand in order to expand more SME.
- Wholly-owned and partnership of SME are as the target to expand business portfolio according to their business status, credit quality, lending purpose and repayment plan, and also to enhance debt strengthens through SMEG and government-related policies.
- Cooperating with the government's policies on economy growth and industries upgrading, providing the whole programs on corporate loans and satisfying the customers funding needs in each level.
- Credit officers overview the industry and report to related person in order to grasp market trends.
- Implementing account personnel system, actively searching new customers and maintaining old customers at the same time. The Bank holds the account personnel meeting on a regular time schedule that discuss the business performance and educate the personnel to enhance ability to determine the risk of the business operation to increase competitiveness and profitability.
- To set a control ratio of credit limit in various industries and strengthen corporate credit issues beforehand to prevent excessive concentration risk and to pay attention to overall economy and market fluctuation.

5-1-2-4. International Banking & Foreign Exchange Business

- Increasing RP/RS investment allocation, seeking high-rating overseas securities and creating revenues from financial operation on foreign currency funds.
- Continuing to enforce the professional knowledge and training for personnel in order to enhance ability to expand foreign exchange business.
- In line with Central Bank's foreign exchange business management, cooperate with IT to amend foreign exchange data processing and uploading system to submit foreign exchange payment or transaction data transfer in operating mode.
- Increasing fixed income investment allocation, seeking high-rating overseas securities and creating revenues from financial operation on foreign currency funds.
- Applying more domestic banking units to provide more extensive services.
- Customer can apply online banking transfer transactions to enhance foreign exchange automation services
- Assisting branch to develop potential customers promoting trading finance to create more profits from foreign exchange.
- To follow with Anti-Money Laundering and Countering Terrorist Finance, the Bank Integrated national risk identification evaluation control process system in real-time and strengthen blacklist control and inspection.

5-1-2-5. Wealth Management

- To meet the needs of investors and maintain customer relationship, the Bank provides all-round financial professional services to deal with clients by VIP financial management seminar and invite professional lecturers for customers with the latest market information in real time and create strong relationship with clients.
- In response to the global digital era, the APP business model is becoming popular. The Bank is trying to develop the device by using mobile network banking APP to combine with financial business, fund and market investment information so that customers are not limited by time and space to get the investment affairs to grasp the market situation.

- To make financial plans for customer, understand all use of assets continuously to provide diversified financial products in addition to meet demand for customer funds parking as well as to improve the depth and quality of banking services.
- To strengthen education and training cooperation with Fund and Insurance companies, push and train staff to participate in the series of courses with financial expertise and marketing skills to achieve policy object of full business marketing.
- Regular review of annual objectives to achieve the situation in line with the market investment environment and carry out competition activities to strengthen staff will and improve performance.
- Strengthening development of financial management business, conducting financial trends sharing and financial commodity training in branch morning meeting or after working hours. To integrate the latest trends of global market to promote the professional ability of staff.
- Strengthen professional education and training to staff about financial consumer protection, personal data protection and fair hospitality to maintain customer rights.

5-1-2-6. Asset & Liability Management, Risk Management and Funding

- The Bank continued to maintain the smoothness and stability of the bank's cash flow management. While maintaining its existing peer relationships, keep continued to increase its counterparties to various financial commodities, expanded the sources of funding and reduced the cost of funds.
- Actively cooperate with financial policies and regulations, strengthen management physique, capital structure and improve overall business performance to be high-quality financial institutions.
- In response to changes in the financial environment, handling all kinds of the operational testing to make improvement and closely watching global economic to take the safe strategies of the risk control.
- Actively cultivating the core deposit client base, obtaining stable low funding cost, optimizing the liability structure, facilitating and increasing the quantity of deposits for both sides effectiveness.
- Tightly controlling source of funds and the usage of tenors and interest rates so as to reduce re-pricing risks and maximize net interest income to raise the Bank's profitability and value.
- Strictly monitoring the limits of the market risk in order to balancing returns against risks, optimizing asset allocation, and maintaining the safety and profitability of the capital.
- The Bank promotes the loan and investment business not only follows the Bank Act, related regulations, and the Bank's internal rules to diversify the risks and to obtain effective usage on funds but also comply the highest limit provisions by industry, corporate groups, and country categories to avoid risk losses.
- Managing gaps of the sensibility of the interest rate of the assets and liabilities to reduce basis risks, to make pricing consistent, and to attain earning target.
- Considering the profitability, liquidity, and safety of the fund operation and stability of the source of funds, constructing integrated ALM system to get the risk under control.
- The Bank reviews the sources of the funds and optimizes asset allocation in order to achieve the target on the best earnings.
- The Bank will effectively use the fixed assets and disposal the idle assets to improve efficiency on assets.
- Under the principle of the stability, safety and liquidity, the Bank actively searches available investment on excess funds and creates profitability on assets allocation

5-1-2-7. Administration and Human Resource Management

- Place appropriate staff at the right time in the appropriate position, so that it can be efficient and effective to assist the Bank to achieve the overall goal.
- Through the financial incentives to encourage employees to increase staff's centripetal force and morale, reduce the dissatisfaction with the work and give employees a safe working environment.

5. Business Operation

- Implementing the counseling operation on staff with poor performance to adjust their attitude on job. If the bank makes sure they are not suitable for the bank, they will be eliminated that will fully effective usage on human resources and to improve the bank's performance.
- Controlling the manpower demand and condition, establishing the processes of the employee recruitment, deployment, layoff, and dismissal to ensure the Bank has talent and appropriate staff within a specified period.

5-1-2-8. Credit Card Business

- The "issued card issuing authority" service was launched. At the beginning of the year, system development and test pre-operations were started. By the end of the year 107, test operations were completed and on-line, providing cardholders with 24-hour customer service and authorized quality services.
- Added "electronic payment tax processing platform" to medical app payments and financial institutions to collect model services. Card mates can use the bank's credit card to pay for medical expenses at all major hospitals in Taiwan.
- In response to the 24-hour customer service coming online, we continued to establish various operating procedures database to provide customer service staff promptly solve the customer's questions.
- "High cash rewards" is still the main stream of marketing. With the free three-phase payment service, it is conducive to bank credit cards marketing.
- Continuously streamline credit card operating procedures and modify execution procedures to improve customer satisfaction and employee efficiency.
- The accumulated annual consumption increase in 2016. Monthly assessment the credit card group performance and inform the branch manager to grasp the progress to achieve annual goals.
- In 2017 to use the top 30 credit cards, the branch promotion staff pro-send or send birthday cards and gifts to enhance the loyalty of the users.
- To provide tax concessions, such as income tax, land tax, housing tax, etc., to enhance the customer's willingness to use.
- To use the joint credit card processing center "credit card promotion platform" to increase the credit card exposure opportunities and increase the credit card of the Bank through marketing activities.

5-1-2-9. Insurance Agency Business

- Cooperate with the introduction of competitive insurance products and fill gaps in the existing product lines to facilitate business promotion and create insurance fee income.
- It promotes interest rate-changing life insurance and guaranteed life insurance products, go with annuity insurance, health insurance, accident insurance, investment insurance and other property insurance products to provide customers with more diversified choices.
- Irregular hold incentive activities to encourage the promotion of various business units' and maintain a stable growth.
- Strengthen unit training to enhance business staff possess insurance expertise, increase operation efficiency and business promotion, thereby rising customer satisfaction.
- Continue to pay attention to the regulations and strengthen training and systematic management so as to reduce the risk of sanctions by competent authorities.
- Through internal self-checking, systematic management and regular inspection of internal operations processes to improve the accuracy and efficiency of administrative operations.
- Occasional insurance seminars and training sessions are held to enhance insurance-related professional knowledge and to enable customers' insurance plans to take into consideration multiple functions such as protection, savings, investment, retirement, and tax savings.

5-1-3. Market Analysis

5-1-3-1. Business Operation Area of the Bank

The Bank primarily focuses on domestic market. Up to Dec. 31, 2017, the Bank owns 30 branches and 1 Offshore Banking Unit which spread over Taipei, New Taipei City, Taoyuan City, Hsinchu City, Taichung City, Changhua County, Changhua City, Tainan City and Kaohsiung City. The Bank will continue to expand the business location in order to establish the full financial service network.

5-1-3-2. The Condition of Market Supply and Demand and Growth Potential in the Future

In the digital environment, the traditional financial institution business is no longer monopolized by banks. The new-style financial business includes public fundraising, online lending platforms, and third-party payment, which has become a competitor of traditional banks.

At present, domestic banks have undergone several transformations in areas such as organization, access, payment, business and product innovation, digital talents, and technology finance. However, at this stage, it is still facing with major technological changes, high input costs, different industries and financial technology competition and cooperation challenges, finance regulations restriction, undersupply of digital talent and other issues.

Digital financial professionals with cross-disciplinary, multi-professional, and digital thinking have become targets for recruitment by all financial institutions. However, due to the current education system, the cultivation of digital talents is still in the process of exploration and planning. Existing financial manpower with financial professionals do not necessarily have community management skills or technical capabilities. Therefore, there is a large gap between the supply and demand of digital talents.

How to recruit and train sufficient quality talents have become a bottleneck in the digitization of financial institutions and the direction of future efforts. Therefore, the Bank will continue strengthen the education and training of on-the-job staff to upgrade the staff's skills in financial technology and make it an aid to banks in the development of financial technology.

5-1-3-3. Advantages in Competition and Prospects of Advantages, Disadvantages and Countermeasures

• Advantages

- The bank runs smaller scale of deposit and loan business, branches distributed mostly in central region of Taiwan is not conducive to business development.
- With fewer resources to invest in IT equipment for small and medium sized banks to keep up with “Bank 3.0”—a digital environment policy.
- Financial globalization and domestic banks face in highly “large-scale” competition compress small and medium banks financial services.
- Financial institutions' products are homogeneous and high competitive in the short term does not eliminate and difficult to improve banking profits.

• Countermeasures

- The bank runs smaller scale of deposit and loan business, branches distributed mostly in central region of Taiwan is not conducive to business development.
- With fewer resources to invest in IT equipment for small and medium sized banks to keep up with “Bank 3.0” - a digital environment policy.

5. Business Operation

- Financial globalization and domestic banks face in highly “large-scale” competition compress small and medium banks financial services.
 - Financial institutions’ products are homogeneous and high competitive in the short term does not eliminate and difficult to improve banking profits.
 - Countermeasures
 - With “strengthening capital and stabilizing profits “as a perpetual business strategy, reduce the cost of capital, improve asset quality and financial management to keep profitable growth.
 - To optimize bank digital financial services environment and choose suitable digital development strategies to enhance customer convenience and break through the limits of entities branch distribution.
 - Increasing fee income on wealth management and actively expanding SME lending.
- To keep adjusting branch positions in order to establish a more complete financial services business.

5-1-4. Financial Commodity Research and Development Overview

5-1-4-1. The Situation of Major Financial Products and New-established Units in Recent 2 Years

- Scale of Major Financial Product: Major Financial Product include TWD and G7 currency deposit 、 consumer loan 、 corporate lending 、 import and export of foreign currency remittance 、 exchange 、 finances advisor 、 trust product and credit card services, please refer to this annual report part 5: Business Operation
- New-established Units:
 - May 01, 2017: Set up Insurance Agent Department
 - May 19, 2017: The New Building of Fengyuan Branch opened

5-1-4-2. Expenditure and result of Financial Products Research and Development in Recent 2 years

5-1-4-2-1. Expenditure of Financial Products Research and Development in Recent 2 years:

- Expenditure of Financial Products Research and Development in recent 2 years.
 - Year 2016: TWD2,443 thousand; Year 2017: TWD4,889 thousand

5-1-4-2-2. The Result of Major Financial Products Research and Development in Recent 2 years as the follow:

- Revision of official website to support pages adaptation function
- Development of interbank FXML trading system
- To build up online education and training system for employee
- To add ID text automatic identification of seal identification system to improve open bank accounts efficiency
- Development of mobile push notification system
- To match authorities require to develop prevention and control of anti-money laundering and counter terrorist financing related systems
- New version Plus for Mobile E-banking officially online
- Building big data analysis system
- To develop pad system for internal meeting

- Development of lottery system for business unit activities
- Cooperate with authorities to complete the evaluation of information security and ATM offensive and defensive drills
- Complete various types of passbook management and the inventory details
- Increase "Firewall Hardware", "Source Code Analysis", Financial information service remittance and ATM host business system encipher
- Replacement partial of ATM to build a good space for disabled persons
- Credit card certificate management with computers and make e-book of bad debt
- Use Microsoft's AD system to control computer permissions to observe to Personal Information Protection Law

5-1-4-2-3. Research and Development Project in the Future:

- Aggressive to develop digital financial services and streamline operational procedures to reduce costs and improve the Bank's client base to attract younger clientele.
- Studying to establish a database to analyze customer contacts in order to provide new financial products that better meet customer needs based on customer trading habits
- To construct sound risk management organizations and mechanisms to assess and monitor the efficiency of credit risk, market risk, operational risk and liquidity risk enhancing performance and asset quality
- Aggressive to create new trust products to enhance bank's competitive about the trust business
- To reinforce electronic financial services by keeping R&D on website and internet banking business in order to provide better internet transaction platform to match varied demands
- In accordance with the timing of process by authorities, the Bank develops plans of money laundry - information risk assessment and risk control
- To start internet online business successively in response to Bank 3.0
- To strengthen working capitals and enhance sound financial structure in order to develop business
- To keep develop cross-board of cash flow service platform in order to get the latest financial market context and trends all the time
- Establish standard and simplify operating processes and enhance of IT system integrator in order to improve operational efficiency and customer satisfaction

5-1-5. Long/Short Term Business Development Plan

5-1-5-1. For our Short Term Business Development Plan, details please refer to our profile of Business Plans for Year 2018

5-1-5-2. Long Term Business Development Plan

- According to the market of innovative consuming financial products, the Bank develops diversified and tailor-made proposals to create additional value of products and expand services and scale of personal financial loans.
- Continuing promotion of the gold passbook business and researching the benefits of setting up foreign currency gold passbook business and the more diversified way ex. regular fixed amount deductions in order to Increase revenue and provide options that better meet customer needs.
- To create profits and enhance profitability, the Bank makes effort to expand interest spread, develop wealth management business and increase proportion of fees
- Adjusting the structure of banking profits and expand economy scale to improve operational efficiency in order to reduce costs.

5. Business Operation

- Continued on the official website, E-banking and mobile banking APP for innovation and research and develop on network payment platform to match customer needs.
- Under the purpose of sustainable development, the Bank strengthens capital quality, reduces capital cost and improves finance structure to upgrade ROE.
- To set up customer database and analysis on customer transactions behavior to provide more in line with customer demand of new financial products.
- To participate charitable activities and implement social responsibility
- Aggressive to develop digital financial services and streamline operational procedures to reduce costs and improve the Bank's client base to attract younger clientele. Based on Fin-Tech development, the Bank strengthens staff training and education to promote professional skill.
- Continually focus on development of new financial products and track the following conditions in interbank and customers maintenance. According to customer needs to consider the feasibility and the risk of new financial products to increase business profit.
- The Bank adjusts the layout of locations to improve branch benefit and increase management effectiveness.
- In line with government policy to provide enterprise credit facilities and promoting strategies to meet corporate capital needs.
- Create an innovative financial environment and strengthen the use of LINE@ and FB messaging from Wealth Management and identify customer preferences to reach more users, and use behavior analysis to narrow the distance with customers.

5-2. Human Capital

Information of Educational Background for Employees in Recent 2 Years

Year		2016	2017	Up to Feb. 28, 2018
Item				
Number of Employee		1,121	1,141	1,151
Average Age		40.57	40.98	40.85
Average Seniority		13.79	14.13	14.07
Structure of Education	Doctor	1	2	2
	Master	84	87	86
	University/College	852	840	839
	Senior High School	194	210	222
	Below	2	2	2
Certificated Proficiency Tests of Employees			Total (Up to Feb. 28, 2018)	
Basic Proficiency Test for Bank Lending Personnel			562	
Advanced Proficiency Test for Bank Lending Personnel			39	
Proficiency Test for Bank Collateral Appraisal Personnel			49	
Basic Proficiency Test for International Banking Personnel			364	
Proficiency Test for Foreign Exchange Trading Personnel			47	
Proficiency Test for Financial Planning Personnel			335	

Certificated Proficiency Tests of Employees	Total (Up to Feb. 28, 2018)
Test for Small-Medium Business Financial Staff	181
Proficiency Test for Trust Operations Personnel	701
Proficiency Test for Obligation & Debt Collection Personnel	162
Proficiency Test for Bank Internal Control and Audit Personnel	713
Proficiency Test for Financial Risk Management Personnel	3
Securities Investment Analysts	7
Senior Securities Specialist	201
Securities Specialist	121
Future Specialist	171
Securities Investment Trust & Consulting Professionals	188
Qualified Test for Bill Finance Specialist	88
Proficiency Test for Bond Specialist	20
Proficiency Test for Stock Affair Specialist	12
Basic Ability Test for Asset Securitization	6
Personal Insurance Representative	734
Test for Life Insurance Representative (Foreign Currency Base) – Non Investing Insurance Products	472
Investment-Orientated Insurance Representative	429
Property Insurance Representative	621
Personal Risk Manager	1
Financial Risk Management (FRM)	1
Land Registry Agent	3
Property Insurance Agent	5
Personal Insurance Agent	4
Personal Insurance Broker	3
General English Placement Test –High-Intermediate	0
General English Placement Test – Intermediate	2
General English Placement Test – Elementary	21
TOEIC score above 880	2
TOEIC score 750-880	4
TOEIC score 550-750	12
TOEIC score 350-550	8

5. Business Operation

5-3. Responsibility and Ethical Code

The Bank all along been upholding “what is taken from society, used for the community” to fulfill social responsibility. In June 2016 as TCCE Found initiates the plan “Strong Will Collects Million Books, Constructs Culture City Again”, the Bank donated TWD500,000 in advance as well as established contribution system and encouraged all staff to join this activity through practical action to build Taichung city becoming a happy LOHAS city of reading and lifelong learning. For many years the Bank also sponsored charity activities of Eden Social Welfare Foundation, Taichung Food Bank and held activity of voluntary blood donation with Taichung Blood Center for 3 years that raised 689 donated blood bags of total in 172,250 c.c. The Bank set up “COTA Culture and Education Foundation” in Aug. 1999 to develop the public welfare like as lifelong learning lectures, arranging book club for elder persons, with other public interest groups held health talks and friendship activities for retirees. To encourage children’s imagination and create positive effect, the Bank sponsored children drawing competition in 11 years. In the future the Bank commits to provide better financial services and continues to participate in activities that enhance community well-being so as to achieve the effect of resource sharing and with people join social welfare.

5-4. Number of non-supervisory positions employees, average annual welfare expenses and the difference between two years

Unit: TWD

Item	2016	2017
Non-supervisory Employee Welfare Expenses	1,118,223,675	1,140,653,424
Number of Non-supervisory Employees	1,073	1,093
Average Welfare Expense for each Non- supervisory Employee	1,042,147	1,043,599

Note:

1. Definition of “Employee” is that individual provides service for the Bank and under the supervision (irrespective of the nationality and foreigners) which does not contain only contacts with the Bank (ex. Insurance agents earn commission, after completion of agreed work to earn remuneration and without the act of employee rights), outsourcing or the temp as well as directors and supervisors.
2. “Non-Supervisory Position” is not responsible for the management of staff or with administrative responsibility of unit
3. “Employee Welfare Expense” is all forms of consideration of the Bank can offer in exchange for the staff to provide services according to IAS19. And follow the rule of Regulations Governing the Preparation of Financial Reports by Public Banks, “Employee Welfare Expense” includes employee salaries, Labor Insurance, Health Insurance, retirement pensions and other employee benefits (including commission and net income of fees etc.)

5-5. IT Equipment

The Bank uses IBM UNIX server for Business System, Testing System, Inter-bank Business and Utility System separately. Furthermore, we also uses Windows server and Linux server depend on network and different business lines, and operated by virtualized integration and deployment in multiple HP entities.

Up to date, our working software includes Demand Deposits System, Time Deposit System, Comprehensive Deposit System, Bill Collection System, Financial Consultants System, Credit System, Trust Business System, Checks Clearing System, ATM & Chip-Card System, Internet Banking System, Mobile Banking System, Automatic Phone Voice Service System, Correspondent System, Credit Checking System, Chops System, Staff Field System (including E-Document System, Staff Management System, Personnel & Wages System, Operation Analysis System, Credit Review System, Messaging System, Information Transmitting System, Consuming Business System, SME Banking Business System, Wealth Management Business System, Joint-Credit MQ Information System, Teaching film Platform, Field of Staff and Banking Business...), Accounting System, Safe System, Foreign Exchange System (DBU and OBU), Credit Card System and Gold Passbook etc.

In respond to the implementation Personal Information Protection Act, prevent data leakage, enhance with query, restriction on use data and record. Build up environment of AD (Active Directory), strengthen the management of Terminal computer equipment using and we built up DLP (Data Loss Prevention/Protection) system to intercept the possible leaking of personal information through email, internet or USB device. On the safety of web page, we have used web page safety testing system to prevent from the leaking of program.

To follow the act of Anti-Money Laundering and Counter Terrorist Financing, the Bank sets up related computer systems of customer risk revaluation, high risk list detection, filters of suspicious transaction data, cash transaction report, Import/ Export and cross-border remittance transactions monitoring etc.

The Bank uses Mirror Disks to protect all transactions data completely and keeps duplicates of disc and magnetic film every working day. Use two telecommunication circuits of lines and build 4G wireless backup. Main communication equipment applied HA framework so that on-line automatic replacement is available when it failed. There is a hard copy for surrounded equipments and with a system safety controlling mechanism so as to guarantee safety of transactions. We also install backup systems at different locations in order to continue to deal with the whole business when accidents occur.

In terms of information security, according to the regulations of the competent authority, the bank contacts the qualified professional organizations for information security assessment every year. They investigate and evaluate the security of information systems and equipment in the bank. If any risk is found, it must first be improved to improve information security and reliability.

5. Business Operation

5-6. Labor-Management Relationship

5-6-1. The current important employer-employee agreement and its implementation:

In order to stabilize the quality of staff life and improve the working efficiency, the Bank takes care of the welfare for staff with regard to give birth, marriage and funeral events, medical treatment and accidents.

5-6-1-1. Group Insurance

In accordance with laws and regulations, the Bank applies Labor Insurance and National Health Insurance for all staff. We will give cash through Bureau of Labor Insurance if any accident caused. Moreover, we cover accident insurance with the Shin Kong Life for all staff.

5-6-1-2. Bonus

Based on revenue performance, the Bank provides extra bonus at Lunar New Year, Dragon Boat Festival and Mid-Autumn Festival each year. The net earnings by fix ratio are assigned to be bonus for staff with good performance after covering prior years' deficits, income tax, and legal reserves and distribute bonus.

5-6-1-3. Incentive Interest Rate

The Bank provides favorable interest rate of deposits or loans for all staff.

5-6-1-4. Security and Hygiene

To prevent occupational disaster and ensure staff health, the Bank takes care of security and hygiene in accordance with related laws of worker safety sanitation.

5-6-1-5. Staff Proficiency Training

To enhance the level of our employee of profession, In addition to select appropriate personnel to participate in various seminars organized by professional training institutions, the bank depends on the business need to implement new staff pre-service training, in-service training and professional technical training. The bank can also select meritorious personnel to go to domestic and foreign universities to study, or to participate in related financial business study tours.

The Bank's pension fund is pursuant to old-version and updated version which based on Labor Law for "Staff Retirement Plan". The benefit payments and credits suit separately by the above-mentioned plans and based on the years of service and final salary. In accordance with Labor Law, we will calculate 15% of total salaried employees by month (exclude appointed managerial employee) to be retirement payment that was deposited in the pension account in the Bank of Taiwan. We have another account for appointed management that calculated 8% of their salary each month. The Bank has no significant argument between employee and employer at present.

5-6-2. Damage from Argument between Labor and Capital in Recent 2 Years

All personnel management and staff welfares of the Bank are conformed to Labor Law. We retain agreeable labor-capital relationship and never suffered damage from arguments.

5-7. Major Contracts

Nature of Contract	Concern Party	Contractual Period	Major Content	Restrictive Covenants
Deposit Insurance Contract	Central Deposit Insurance Corp.	Engaged on Aug. 15, 1995	To enhance protection of customer deposits	The same depositor maximum amount of compensation is up to TWD3 million
Bank Comprehensive Insurance	Chung Kuo Insurance Co., Ltd.	From Apr. 1, 2017 to Apr. 1, 2018	1. Staff unfaithful behavior 2. Asset of branches 3. Asset in transit 4. Forged drafts and securities 5. Forged cash 6. Damage of equipment 7. Fault of securities or contracts 8. Inadvertency of short banknotes	None
Outsourcing Contract	Yuen Foong Paper Co., Ltd.	From May 3, 2017 to May 2, 2018	Transaction statements	None
Outsourcing Contract	Han Yeh Office Supplies Company	From May 3, 2017 to May 2, 2018	Computer printing jobs and packages	None
Outsourcing Contract	Taiwan Security Co., Ltd. and Lian-An Co., Ltd.	From Oct. 1, 2017 to Sep. 30, 2018	Loading cash & troubleshooting of AMT	None
Outsourcing Contract	Taiwan Security Co., Ltd.	From Jun. 1, 2017 to May 31, 2018	Securities, cheques and cash delivery	None
Outsourcing Contract	Feng Tay Motor Co., Ltd.	From Jun. 27, 2017 to Jun. 27, 2018	To search cars for overdue payments of car loans	None
Outsourcing Contract	21Century Finance Service	From Jun. 27, 2017 to Jun. 27, 2018	To search cars for overdue payments of car loans	None
Outsourcing Contract	Sinjang Co., Ltd.	From Jun. 27, 2017 to Jun. 27, 2018	Authorization of vehicle auction	None
Outsourcing Contract	President Chain Store Corporation	From May 1, 2017 to Apr. 30, 2018	Collection for consumer loans	None
Outsourcing Contract	National Credit Card Center of R.O.C.	From Mar. 10, 2007 to either party in writing of termination and confirm the termination date	Credit card business (credit card payment system & support services)	None
Outsourcing Contract	President Chain Store Corporation	From Jun. 13, 2017 to Jun. 13, 2018	Collection for credit card payments	None
Outsourcing Contract	Taiwan Family Mart Co., Ltd.	From Apr 5, 2017 to Apr 5, 2018	Collection for credit card payments	None
Outsourcing Contract	Hi-Life International Co., Ltd.	From Apr 5, 2017 to Apr 5, 2018	Collection for credit card payments	None
Outsourcing Contract	OK · Mart	From Apr 5, 2017 to Apr 5, 2018	Collection for credit card payments	None

5. Business Operation

Nature of Contract	Concern Party	Contractual Period	Major Content	Restrictive Covenants
Outsourcing Contract	Taiwan Name Plate Co., Ltd.	From Mar. 10, 2017 to Mar. 9, 2018	Chip-card processing, package and mailing	None
Outsourcing Contract	Chunghwa Post Co., Ltd.	From Sep. 20, 2017 to Sep. 19, 2018	Statements printing & package of full management accounts	None
Outsourcing Contract	Transnational Logistic Solutions (Taiwan) Pte. Ltd.	From Dec. 1, 2017 to Nov. 30, 2018	Bank cheques, documents & securities collection & delivery	None

5-8. Information of Approved Securitization Products in Recent Years: None



6 > Financial Status



6. Financial Status

6-1. Condensed Balance Sheet and Statement of Comprehensive Income over the Past Five Years

Consolidated Condensed Balance Sheet under IFRS

Unit: TWD thousand

Descriptions	Year	Financial data during recent 5 years					Up to
		2017	2016	2015	2014	2013	
Cash, Cash equivalents, due from the Central Bank, and call loan to other banks		9,509,193	24,477,847	24,937,444	23,535,092	24,155,762	
Financial asset or Financial Liability at fair value through profit or loss		820,000	1,796,034	2,016,660	2,229,841	1,839,732	
Available-for-sale financial assets		3,736,500	6,375,802	4,345,123	4,381,065	2,005,933	
Derivative Financial Assets for Hedging		-	-	-	-	-	
Bonds and bills purchased under resale agreements		8,968,517	2,102,052	3,654,787	1,848,138	699,901	
Net Receivables		385,124	404,658	396,245	374,516	388,615	
Current tax Assets		6,725	6,725	-	-	-	
Assets Held for Sell		-	-	-	-	-	
Net Discounts and Loans		114,538,216	111,725,677	104,728,135	100,969,801	96,230,478	
Held-to-maturity financial assets		18,762,940	3,525,120	3,506,657	3,423,956	3,535,588	
Long-term investments under equity method		-	-	-	-	-	
Restricted assets		-	-	-	-	-	
Other financial assets		182,100	186,372	187,701	185,432	182,484	
Net property and equipment		1,339,251	1,321,946	1,328,977	1,359,122	1,364,750	
Investment property		991,733	830,192	831,225	691,269	691,906	
Intangible assets		111,395	107,688	107,588	109,972	109,246	
Deferred tax assets		162,668	177,823	250,404	257,662	233,766	
Other assets		105,505	70,841	66,915	69,790	78,482	
Total Assets		159,619,867	153,108,777	146,357,861	139,435,656	131,516,643	
Deposits to The Central Bank and other banks		77,837	64,470	64,470	111,139	114,090	
Financing to The Central Bank and other banks		-	-	-	-	-	
financial liability at fair value through loss		16	491	1,045	137	237	
Hedging derivative financial liabilities		-	-	-	-	-	
Bonds and bills held under repurchased agreements		-	-	-	-	-	
Accounts Payable		825,747	732,650	839,543	791,664	721,644	
Current tax liability		82,787	2,946	8,381	43,427	14,909	
Liabilities directly associated with assets held for sale		-	-	-	-	-	
Deposits and remittances		144,335,490	139,736,041	134,979,877	129,389,480	121,910,933	
Bond payable		3,300,000	3,300,000	1,500,000	1,500,000	1,500,000	
Preference share liabilities		-	-	-	-	-	
Other financial liabilities		-	-	-	-	-	

Descriptions	Year	Financial data during recent 5 years					Up to
		2017	2016	2015	2014	2013	
Provision		259,015	299,452	447,437	442,947	448,132	
Deferred tax liabilities		110,642	115,526	121,430	114,904	116,757	
Other liabilities		337,280	339,951	358,966	388,658	362,996	
Total liabilities	Before allocation	149,328,814	144,591,527	138,321,149	132,782,356	125,189,698	
	After allocation	-	144,782,648	138,441,124	132,948,435	125,302,847	
Equity attributable to owners of the parent		10,291,053	8,517,250	8,036,712	6,653,300	6,326,945	
Share capital	Before allocation	7,625,523	6,370,695	5,998,771	5,032,692	4,919,543	
	After allocation	-	6,625,523	6,370,695	5,198,771	5,032,692	
Capital reserve		910,524	898,234	898,204	892,620	892,589	
Retained earnings	Before allocation	1,732,015	1,256,421	1,090,916	723,138	508,253	
	After allocation	-	810,472	599,017	390,980	281,955	
Other components		22,991	-8,100	48,821	4,850	6,560	
Treasury Shares		-	-	-	-	-	
non-controlling interests		-	-	-	-	-	
Total Shareholders' equity	Before allocation	10,291,053	8,517,250	8,036,712	6,653,300	6,326,945	
	After allocation	-	8,326,129	7,916,737	6,487,221	6,213,796	

Note:

1. The earnings distribution for 2017 has not been approved by the 2018 Shareholders' General Meeting.
2. 2013 Implementation evaluation Impairment of individual assets, Recognition Impairment of Assets and Reversal gains TWD145, 327,000.
3. 2015 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD122, 018, 000.
4. 2017 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD162, 574, 000.

Entity Condensed Balance Sheet under IFRS

Unit: TWD thousand

Descriptions	Year	Financial data during recent 5 years					Up to
		2017	2016	2015	2014	2013	
Cash, Cash equivalents, due from the Central Bank, and call loan to other banks		9,509,193	24,477,847	24,937,444	23,535,092	24,155,759	
Financial asset or Financial Liability at fair value through profit or loss		820,000	1,796,034	2,016,660	2,229,841	1,839,732	
Available-for-sale financial assets		3,736,500	6,375,802	4,345,123	4,381,065	2,005,933	
Derivative Financial Assets for Hedging		-	-	-	-	-	
Bonds and bills purchased under resale agreements		8,968,517	2,102,052	3,654,787	1,848,138	699,901	
Net Receivables		385,124	390,473	396,919	379,357	388,636	
Current tax Assets		6,725	6,725	-	-	-	
Assets Held for Sell		-	-	-	-	-	
Net Discounts and Loans		114,538,216	111,725,677	104,728,135	100,969,801	96,230,478	
Held-to-maturity financial assets		18,762,940	3,525,120	3,506,657	3,423,956	3,535,588	
Long-term investments under equity method		-	39,513	34,828	24,481	21,514	
Restricted assets		-	-	-	-	-	
Other financial assets		182,100	186,372	187,701	185,432	182,484	

6. Financial Status

Descriptions	Year	Financial data during recent 5 years					Up to
		2017	2016	2015	2014	2013	
Net property and equipment		1,339,251	1,321,946	1,328,904	1,359,012	1,364,602	
Investment property		991,733	830,192	831,225	691,269	691,906	
Intangible assets		111,395	107,688	107,588	109,972	109,246	
Deferred tax assets		162,668	177,823	250,404	257,662	233,766	
Other assets		105,505	68,825	64,790	67,628	76,470	
Total Assets		159,619,867	153,132,089	146,391,165	139,462,706	131,536,015	
Deposits to The Central Bank and other banks		77,837	64,470	64,470	111,139	114,090	
Financing to The Central Bank and other banks		-	-	-	-	-	
financial liability at fair value through loss		16	491	1,045	137	237	
Hedging derivative financial liabilities		-	-	-	-	-	
Bonds and bills held under repurchased agreements		-	-	-	-	-	
Accounts Payable		825,747	722,944	839,816	796,955	723,192	
Current tax liability		82,787	-	5,010	41,696	13,577	
Liabilities directly associated with assets held for sale		-	-	-	-	-	
Deposits and remittances		144,335,490	139,773,092	135,017,248	129,414,163	121,930,708	
Bond payable		3,300,000	3,300,000	1,500,000	1,500,000	1,500,000	
preference share liabilities		-	-	-	-	-	
Other financial liabilities		-	-	-	-	-	
Provision		259,015	299,452	447,437	442,947	448,132	
Deferred tax liabilities		110,642	115,526	121,430	114,904	116,757	
Other liabilities		337,280	338,864	357,997	387,465	362,377	
Total liabilities	Before allocation	149,328,814	144,614,839	138,354,453	132,809,406	125,209,070	
	After allocation	-	144,805,960	138,474,428	132,975,485	125,322,219	
Equity attributable to owners of the parent		10,291,053	8,517,250	8,036,712	6,653,300	6,326,945	
Share capital	Before allocation	7,625,523	6,370,695	5,998,771	5,032,692	4,919,543	
	After allocation	-	6,625,523	6,370,694	5,198,771	5,032,692	
Capital reserve		910,524	898,234	898,204	892,620	892,589	
Retained earnings	Before allocation	1,732,015	1,256,421	1,090,916	723,138	508,253	
	After allocation	-	810,472	599,017	390,980	281,955	
Other components		22,991	-8,100	48,821	4,850	6,560	
Treasury Shares		-	-	-	-	-	
non-controlling interests		-	-	-	-	-	
Total Shareholders' equity	Before allocation	10,291,053	8,517,250	8,036,712	6,653,300	6,326,945	
	After allocation	-	8,326,129	7,916,736	6,487,221	6,213,796	

Note:

1. The earnings distribution for 2017 has not been approved by the 2018 Shareholders' General Meeting.
2. 2013 Implementation evaluation Impairment of individual assets, Recognition Impairment of Assets and Reversal gains TWD145,327,000.
3. 2015 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD122,018,000.
4. 2017 Implementation evaluation Impairment of individual assets, Recognition Impairment of Investment property and Reversal gains TWD162,574,000.

Entity Consolidated Statement of Comprehensive Income under IFRS

Unit: TWD thousand

Descriptions	Year	Financial data during recent 5 years					Up to
		2017	2016	2015	2014	2013	
Interest income		3,497,564	3,414,505	3,467,577	3,283,481	3,133,722	
Interest expense (Minus)		991,327	1,012,506	1,140,481	1,097,041	1,065,136	
Net Interest income		2,506,237	2,401,999	2,327,096	2,186,440	2,068,586	
Other net interest income		414,681	332,039	576,993	406,865	495,781	
Net income		2,920,918	2,734,038	2,904,089	2,593,305	2,564,367	
Provision for bad debt expense and guarantees		(93,114)	12,120	151,443	292,273	402,713	
Operating expense		1,950,196	1,863,275	1,920,708	1,767,902	1,589,294	
Income from continuing operations before income taxes		1,063,836	858,643	831,938	533,130	572,360	
Tax income (expense)		(146,554)	(143,826)	(110,746)	(92,141)	(76,608)	
Net profit from continuing operations		917,282	714,817	721,192	440,989	495,752	
profit or loss from discontinuing operations		-	-	-	-	-	
Current net profit (or loss)		917,282	714,817	721,192	440,989	495,752	
Current other comprehensive income (after taxes)		35,352	(114,334)	22,715	(1,516)	17,213	
Current Total other comprehensive income		952,634	600,483	743,907	439,473	512,965	
Net profit attributable to owners of the parent		917,282	714,817	721,192	440,989	495,752	
Net profit to non-controlling interests		-	-	-	-	-	
Current Total other comprehensive income to owners of the parent		952,634	600,483	743,907	439,473	512,965	
Current Total other comprehensive income to non-controlling interests		-	-	-	-	-	
Earnings per share		1.33	1.08	1.13	0.85	1.08	

1. Certified public accountants: Shi-Hua Guo and Yuan-Chen Mei for 2013~2017

2. Opinions: No standard retained opinion for 2013~2017.

6. Financial Status

Entity Condensed of Comprehensive Income under IFRS

Unit: TWD thousand

Descriptions	Year	Financial data during recent 5 years					Up to
		2017	2016	2015	2014	2013	
Interest income		3,497,564	3,414,505	3,467,577	3,283,481	3,133,722	
Interest expense (Minus)		991,356	1,012,682	1,140,662	1,097,231	1,065,307	
Net Interest income		2,506,208	2,401,823	2,326,915	2,186,250	2,068,415	
Other net interest income		404,313	289,868	531,262	365,273	462,295	
Net income		2,910,521	2,691,691	2,858,177	2,551,523	2,530,710	
Provision for bad debt expense and guarantees		(93,114)	12,120	151,443	292,273	402,713	
Operating expense		1,940,954	1,826,369	1,879,783	1,729,298	1,558,492	
Income from continuing operations before income taxes		1,062,681	853,202	826,951	529,952	569,505	
Tax income (expense)		(145,399)	(138,385)	(105,759)	(88,963)	(73,753)	
Net profit from continuing operations		917,282	714,817	721,192	440,989	495,752	
profit or loss from discontinuing operations		-	-	-	-	-	
Current net profit (or loss)		917,282	714,817	721,192	440,989	495,752	
Current other comprehensive income (after taxes)		35,352	(114,334)	22,715	(1,516)	17,213	
Current Total other comprehensive income		952,634	600,483	743,907	439,473	512,965	
Net profit attributable to owners of the parent		917,282	714,817	721,192	440,989	495,752	
Net profit to non-controlling interests		-	-	-	-	-	
Current Total other comprehensive income to owners of the parent		952,634	600,483	743,907	439,473	512,965	
Current Total other comprehensive income to non-controlling interests		-	-	-	-	-	
Earnings per share		1.33	1.08	1.13	0.85	1.08	

1. Certified public accountants: Shi-Hua Guo and Yuan-Chen Mei for 2013~2017.

2. Opinions: No standard retained opinion for 2013~2017.

6-2. Analysis on Major Financial Ratios for Recent Five Years

Under IFRS Consolidated

Unit: TWD thousand; %

Descriptions (Note.3)	Year (Note.1)	Financial analysis during recent 5 years					Up to (Note.2)
		2017	2016	2015	2014	2013	
Operating Capability	Loans to deposits ratio (%)	80.83	81.54	79.39	79.97	80.78	
	Overdue loan ratio (%)	0.24	0.22	0.21	0.34	0.36	
	Interest expense to average balance of deposits ratio (%)	0.64	0.70	0.82	0.83	0.89	
	Interest income to average balance of loans ratio (%)	2.59	2.79	2.80	2.74	2.79	
	Total assets turnover (times)	0.02	0.02	0.02	0.02	0.02	
	Average operating revenue per employee	2,560	2,417	2,543	2,275	2,246	
	Average earnings per employee	804	626	632	387	434	
Profitability	Return on first capital type assets (%)	11.75	10.85	11.90	8.66	10.21	
	ROA (%)	0.59	0.48	0.50	0.33	0.38	
	ROE (%)	9.75	8.64	9.82	6.79	8.54	
	Net income ratio (%)	31.40	26.15	24.83	17.00	19.59	
	EPS (loss)	1.33	1.08	1.13	0.85	1.08	
Financial structure	Ratio of liabilities to assets	93.53	94.41	94.49	95.22	95.19	
	Ratio of fix assets to shareholder's equity	13.01	15.52	16.54	20.43	21.57	
Growth Rate	Asset growth rate (%)	4.25	4.61	4.96	6.01	3.84	
	Profitability growth rate (%)	23.90	3.21	56.05	-6.39	129.07	
Cash flow	Cash flow ratio	Note9	Note9	67.27	Note9	Note9	
	Cash flow adequacy ratio	Note9	Note9	N/A	N/A	N/A	
	Ratio of cash flow for operating to cash flow from investing	Note9	Note9	Note9	Note9	Note9	
Liquid Reserves Ratio (%)		20.09	17.42	18.99	18.99	17.43	
Secured Loans to Related Parties		600,101	787,649	756,883	756,883	720,777	
Secured Loans to Related Parties to Total Outstanding Loans Ratio (%)		0.51	0.70	0.71	0.71	0.70	
Operation Scale	Market share of assets (%)	0.22	0.22	0.22	0.22	0.23	
	Market share of net worth (%)	0.17	0.15	0.15	0.14	0.15	
	Market share of deposits (%)	0.44	0.44	0.44	0.45	0.45	
	Market share of loan (%)	0.48	0.49	0.47	0.47	0.47	

The specify reasons of changes in financial ratios for the latest two years: (If the variation does not reach 20%, the analysis can be omitted.)

1. The increase in ROA, net income ratio, and profitability growth rate, mainly is because recognition Impairment of assets and reversal gains and conversion allowance for bad debts result in 2017
2. The decrease in secured loans to related parties to total outstanding loans ratio, mainly is because changes related parties and decrease loans ratio result in 2017.

* If the company has the establishment individual financial report, should establish the company individual finance ratio analysis in addition.

6. Financial Status

Note:

It should be specified if the year without checked visa by CPA auditor.

2. If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.

3. Calculation formula

(1) Operating ability

(A) Ratio of loans to deposits = Total loans / deposits

(B) Ratio of overdue = (Loans Overdue + Other Overdue) / Total Loans

(C) Ratio of interest Cost to Annual Average Deposits = interest Cost / Annual Average Deposits

(D) Ratio of interest income to Annual Average Loans Outstanding =
Interest Income / Annual Average Loans Outstanding

(E) Total Assets Turnover = Net Operating Revenue / Total Assets

(F) Average Operation Revenue per Employee = Net Operating Revenue / Number of Employees

(G) Average Profit per Employee = After-tax Income / Total Number of Employees

(2) Profitability

(A) Return on Tier I Capital = Pretax Earnings or Losses / Total Average Tier I Capital

(B) Return on Assets = Net Income / Average of Total Assets

(C) Return on Shareholders' Equity = Net income / Average of Total Shareholders' Equities

(D) Ratio of Net Income = Net Income / Total Revenue

(E) Earnings per Share = (Net Income – Preferred stock Dividend) / Average Weighted Outstanding Stock (Note.5)

(3) Financial Structure

(A) Ratio of Liabilities to Assets = Liabilities / Total Assets

(B) Ratio of Fix Assets to Shareholders' Equity = Fix Assets / Shareholders' Equities

(4) Growth Rate

(A) Asset Growth Rate = (Total Assets of the Year - Total Assets of Previous Year) / Total Assets of Previous Year

(B) Profit Growth Rate = (Pretax Earnings or Losses of the Year - Before-tax Earnings or Losses of Previous Year) / Pretax Earnings or Losses of Previous Year

(5) Cash Flow (Note.8)

(A) Ratio of Cash Flow = Net cash flow from business activities / (call loans and overdrafts from banks + commercial paper payable + financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreement + current portion of payables)

(B) Ratio of Net Cash Flow Adequacy = Net cash flow from business activities for the past five years / (capital expenditures + cash dividends) for the past five years

(C) Ratio of Cash Flow for operating to cash flow from investing = Net cash flow from business activities / Net cash flow from investing activities

(6) Liquidity Reserves Ratio = Liquid Assets Stipulated by CBC / Reserves Appropriated for various Types of Deposits

(7) Operating Scale

(A) Market Share of Asset = Total Asset / Total Asset of the major financial institutions (Note.6)

(B) Market Share of Net Worth = Net Worth / Total Asset of the major financial institutions

(C) Market Share of Deposit = Total Deposit / Total Asset of the major financial institutions

(D) Market Share of Loan = Total Loan / Total Asset of the major financial institutions

4. Total liabilities do not contain Prepare guarantee responsibility and Accident liability reserve.

5. The following shall be noted in the equations of EPS of the preceding paragraph:

(1) It is based on weighted average common stock shares instead of the issued stock shares at the end of year.

(2) For cash capitalization or Treasury stock trade, the circulation period is to be considered for the calculation of weighted average stock shares.

(3) For capitalized retained earnings or additional paid-in, for the calculation of earnings per share of previous years and semi-annual, it is to be adjusted retroactively and proportionally to the ratio of capitalization but not the issuance period of the capitalization.

(4) If the preferred stock is non-convertible cumulative preferred stock, the dividend (distributed or not distributed) is to be deducted from Net Income or is to be added to Net Loss.

(5) If the preferred stock is non-cumulative preferred stock; also, if there is Net income generated, preferred stock dividend is to be deducted from Net income; however, if there is net loss resulted, no adjustment is required.

6. Can apply for deposit and loan business: Local banks, Branches of foreign banks in Taiwan, Credit Cooperatives, Agriculture, Fisheries and credit department

7. The income means the total interest income and non-interest income.

8. The following shall be considered in measuring of cash flow analysis:

(1) Net cash flow from operating activities means the net cash inflow from operating activities in the cash flow statement.

(2) Capital expenditure means the cash outflow from capital investment per year.

(3) Cash dividends include of common and preferred stocks.

(4) Gross for real estate and equipment means the total real estate and equipment before deduction of accumulated depreciation.

9. Relevant ratio of cash flow is Negative, no disintegration.

Under IFRS Condensed

Unit: TWD thousand; %

Descriptions (Note.3)	Year (Note.1)	Financial analysis during recent 5 years					Up to (Note.2)
		2017	2016	2015	2014	2013	
Operating Capability	Loans to deposits ratio (%)	80.83	81.52	79.37	79.95	80.77	
	Overdue loan ratio (%)	0.24	0.22	0.21	0.34	0.36	
	Interest expense to average balance of deposits ratio (%)	0.64	0.70	0.82	0.83	0.89	
	Interest income to average balance of loans ratio (%)	2.59	2.79	2.80	2.74	2.79	
	Total assets turnover (times)	0.02	0.02	0.02	0.02	0.02	
	Average operating revenue per employee	2,551	2,401	2,523	2,254	2,216	
	Average earnings per employee	804	638	637	390	434	
Profitability	Return on first capital type assets (%)	11.73	10.78	11.83	8.60	10.21	
	ROA (%)	0.59	0.48	0.50	0.33	0.38	
	ROE (%)	9.75	8.64	9.82	6.79	8.54	
	Net income ratio (%)	31.52	26.56	25.23	17.28	19.59	
	EPS (loss)	1.33	1.08	1.13	0.85	1.08	
Financial structure	Ratio of liabilities to assets	90.58	94.41	94.49	95.20	95.18	
	Ratio of fix assets to shareholder's equity	13.01	15.52	16.54	20.43	21.57	
Growth Rate	Asset growth rate (%)	4.24	4.60	4.97	6.03	3.84	
	Profitability growth rate (%)	24.55	3.17	56.04	(6.95)	129.07	
Cash flow	Cash flow ratio	Note9	Note9	67.25	Note9	Note9	
	Cash flow adequacy ratio	Note9	Note9	N/A	N/A	N/A	
	Ratio of cash flow for operating to cash flow from investing	Note9	Note9	Note9	Note9	Note9	
Liquid Reserves Ratio (%)		20.09	17.42	17.43	18.99	17.43	
Secured Loans to Related Parties		600,101	787,649	720,777	756,883	720,777	
Secured Loans to Related Parties to Total Outstanding Loans Ratio (%)		0.51	0.70	0.70	0.71	0.70	
Operation Scale	Market share of assets (%)	0.22	0.22	0.22	0.22	0.23	
	Market share of net worth (%)	0.17	0.15	0.15	0.14	0.15	
	Market share of deposits (%)	0.44	0.44	0.44	0.45	0.45	
	Market share of loan (%)	0.48	0.49	0.47	0.47	0.47	

The specify reasons of changes in financial ratios for the latest two years: (If the variation does not reach 20%, the analysis can be omitted.)

1. The increase in ROA, and profitability growth rate, mainly is because recognition Impairment of assets and reversal gains and conversion allowance for bad debts result in 2017.
2. The decrease in secured loans to related parties to total outstanding loans ratio, mainly is because changes related parties and decrease loans ratio result in 2017.

* If the company has the establishment individual financial report, should establish the company individual finance ratio analysis in addition.

Note:

1. It should be specified if the year without checked visa by CPA auditor.
2. If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.
3. Calculation formula

6. Financial Status

- (1) Operating ability
 - (A) Ratio of loans to deposits = Total loans / deposits
 - (B) Ratio of overdue = (Loans Overdue + Other Overdue) / Total Loans
 - (C) Ratio of interest Cost to Annual Average Deposits = interest Cost / Annual Average Deposits
 - (D) Ratio of interest income to Annual Average Loans Outstanding =
Interest Income / Annual Average Loans Outstanding
 - (E) Total Assets Turnover = Net Operating Revenue / Total Assets
 - (F) Average Operation Revenue per Employee (Note.7)= Net Operating Revenue / Number of Employees
 - (G) Average Profit per Employee = After-tax Income / Total Number of Employees
 - (2) Profitability
 - (A) Return on Tier I Capital = Pretax Earnings or Losses / Total Average Tier I Capital
 - (B) Return on Assets = Net Income / Average of Total Assets
 - (C) Return on Shareholders' Equity = Net income / Average of Total Shareholders' Equities
 - (D) Ratio of Net Income = Net Income / Total Revenue
 - (E) Earnings per Share = (Net Income – Preferred stock Dividend) / Average Weighted Outstanding Stock (Note.5)
 - (3) Financial Structure
 - (A) Ratio of Liabilities to Assets = Liabilities / Total Assets
 - (B) Ratio of Fix Assets to Shareholders' Equity = Fix Assets / Shareholders' Equities
 - (4) Growth Rate
 - (A) Asset Growth Rate = (Total Assets of the Year-Total Assets of Previous Year)/Total Assets of Previous Year
 - (B) Profit Growth Rate=(Pretax Earnings or Losses of the Year-Before-tax Earnings or Losses of Previous Year)/ Pretax Earnings or Losses of Previous Year
 - (5) Cash Flow (Note.8)
 - (A) Ratio of Cash Flow= Net cash flow from business activities /(call loans and overdrafts from banks + commercial paper payable +financial liabilities measured at fair value through profit or loss + bonds and bills sold under repurchase agreement + current portion of payables)
 - (B) Ratio of Net Cash Flow Adequacy = Net cash flow from business activities for the past five years/ (capital expenditures + cash dividends) for the past five years
 - (C) Ratio of Cash Flow for operating to cash flow from investing = Net cash flow from business activities/ Net cash flow from investing activities
 - (6) Liquidity Reserves Ratio= Liquid Assets Stipulated by CBC/Reserves Appropriated for various Types of Deposits
 - (7) Operating Scale
 - (A) Market Share of Asset= Total Asset/Total Asset of the major financial institutions (Note.6)
 - (B) Market Share of Net Worth= Net Worth/Total Asset of the major financial institutions
 - (C) Market Share of Deposit= Total Deposit/Total Asset of the major financial institutions
 - (D) Market Share of Loan= Total Loan/Total Asset of the major financial institutions
4. Total liabilities do not contain Prepare guarantee responsibility and Accident liability reserve.
5. The following shall be noted in the equations of EPS of the preceding paragraph:
- (1) It is based on weighted average common stock shares instead of the issued stock shares at the end of year.
 - (2) For cash capitalization or Treasury stock trade, the circulation period is to be considered for the calculation of weighted average stock shares.
 - (3) For capitalized retained earnings or additional paid-in, for the calculation of earnings per share of previous years and semi-annual, it is to be adjusted retroactively and proportionally to the ratio of capitalization but not the issuance period of the capitalization.
 - (4) If the preferred stock is non-convertible cumulative preferred stock, the dividend (distributed or not distributed) is to be deducted from Net Income or is to be added to Net Loss.
 - (5) If the preferred stock is non-cumulative preferred stock; also, if there is Net income generated, preferred stock dividend is to be deducted from Net income; however, if there is net loss resulted, no adjustment is required.
6. Can apply for deposit and loan business: Local banks, Branches of foreign banks in Taiwan, Credit Cooperatives, Agriculture, Fisheries and credit department
7. The income means the total interest income and non-interest income.
8. The following shall be considered in measuring of cash flow analysis:
- (1) Net cash flow from operating activities means the net cash inflow from operating activities in the cash flow statement.
 - (2) Capital expenditure means the cash outflow from capital investment per year.
 - (3) Cash dividends include of common and preferred stocks.
 - (4) Gross for real estate and equipment means the total real estate and equipment before deduction of accumulated depreciation.
9. Net cash flow from business activities or relevant ratio of cash flow is Negative, no disintegration.

Consolidated Capital Adequacy Ratio under IFRS

Unit: TWD thousand; %

Items	Year (Note.1)	Capital Adequacy Ratio of Recent Five Year (Note.2)					Up to (Note.4)	
		2017	2016	2015	2014	2013		
Net Capital	Common equity	9,950,751	8,163,589	7,659,153	6,322,519	5,996,666		
	Other non-common equity of Tier I Capital	-	-	-	-	-		
	Tier I Capital	3,112,248	3,379,440	1,721,351	1,949,132	2,167,578		
	Net Capital Base	13,062,999	11,543,029	9,380,504	8,271,651	8,164,244		
Total Weighted Risk Assets	Credit Risk	Standardized Approach	98,167,383	97,220,080	83,437,336	78,829,506	72,125,004	
		Internal-rating-based Approach	-	-	-	-	-	
		Securitization	-	-	-	-	-	
	Operational Risk	Basic Indicator Approach	5,118,685	4,992,342	4,795,648	4,477,977	4,209,427	
		Standardized Approach / Alternative Approach	-	-	-	-	-	
		Advanced Measurement Approach	-	-	-	-	-	
	Market Risk	Standardized Approach	4,918,013	9,524,884	3,757,382	4,247,874	2,098,803	
		Internal Model Approach	-	-	-	-	-	
	Total Risk-weighted Assets		108,204,081	111,737,306	91,990,366	87,555,357	78,433,234	
	Capital Adequacy Ratio		12.07	10.33	10.20	9.45	10.41	
Tier I Capital to Risk Assets Ratio		9.20	7.31	8.33	7.22	7.65		
Common equity to Risk Assets Ratio		9.20	7.31	8.33	7.22	7.65		
Leverage rate		5.51	4.65	4.61	3.98	3.94		

Note:

- It should be specified if the year without audited by CPA auditor.
- The definition of Self-Owned Capital, Risk-Weighted Assets and exposure measure hereby shall be in compliance with the "Regulations Governing the Capital Adequacy Ratio and Capital Category of Banks" and "Methods for calculation the Self-Owned Capital and Risk-Weighted Assets of Banks."
- Calculation formula:
 - Net Capital Base = Common equity + Other non-common equity of Tier I Capital + Tier II Capital
 - Total Weighted Risk Asset = Credit Risk Weighted Risk Asset + (Operational Risk + Market Risk) Capital Requirement × 12.5
 - Capital Adequacy Ratio = Net Capital Base / Total Risk Asset
 - Ratio of Tier I Capital to Risk Asset = (Common equity + Other non-common equity of Tier I Capital) / Total Risk Asset
 - Common equity to Risk Assets Ratio = Common equity / Total Risk Asset
 - Leverage rate = Net Tier I Capital / Total risk exposure
- If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.
- Reveal lever ratio from 2015.

6. Financial Status

Entity Capital Adequacy Ratio under IFRS

Unit: TWD thousand; %

Year(Note.1) Items		Capital Adequacy Ratio of Recent Five Year (Note.2)					Up to (Note.4)	
		2017	2016	2015	2014	2013		
Net Capital	Common equity	9,950,751	8,163,589	7,659,153	6,322,519	5,996,666		
	Other non-common equity of Tier I Capital	-	-	-	-	-		
	Tier I Capital	3,112,248	3,379,440	1,721,351	1,949,132	2,167,578		
	Net Capital Base	13,062,999	11,543,029	9,380,504	8,271,651	8,164,244		
Total Weighted Risk Assets	Credit Risk	Standardized Approach	98,167,383	97,220,080	83,437,336	78,829,506	72,125,004	
		Internal-rating- based Approach	-	-	-	-	-	
		Securitization	-	-	-	-	-	
	Operational Risk	Basic Indicator Approach	5,118,685	4,992,342	4,795,648	4,477,977	4,209,427	
		Standardized Approach / Alternative Approach	-	-	-	-	-	
		Advanced Measurement Approach	-	-	-	-	-	
	Market Risk	Standardized Approach	4,918,013	9,524,884	3,757,382	4,247,874	2,098,803	
		Internal Model Approach	-	-	-	-	-	
	Total Risk-weighted Assets		108,204,081	111,737,306	91,990,366	87,555,357	78,433,234	
	Capital Adequacy Ratio		12.07	10.33	10.20	9.45	10.41	
Tier I Capital to Risk Assets Ratio		9.20	7.31	8.33	7.22	7.65		
Common equity to Risk Assets Ratio		9.20	7.31	8.33	7.22	7.65		
Leverage rate		5.51	4.65	4.61	3.98	3.94		

Note:

- It should be specified if the year without audited by CPA auditor.
- The definition of Self-Owned Capital, Risk-Weighted Assets and exposure measure hereby shall be in compliance with the "Regulations Governing the Capital Adequacy Ratio and Capital Category of Banks" and "Methods for calculation the Self-Owned Capital and Risk-Weighted Assets of Banks.
- Calculation formula:
 - Net Capital Base = Common equity + Other non-common equity of Tier I Capital + Tier II Capital
 - Total Weighted Risk Asset = Credit Risk Weighted Risk Asset + (Operational Risk + Market Risk) Capital Requirement × 12.5
 - Capital Adequacy Ratio = Net Capital Base / Total Risk Asset
 - Ratio of Tier I Capital to Risk Asset = (Common equity + Other non-common equity of Tier I Capital) / Total Risk Asset
 - Common equity to Risk Assets Ratio = Common equity / Total Risk Asset
 - Leverage rate = Net Tier I Capital / Total risk exposure
- If there is recent financial information reviewed by CPA before annual report was printed, the Bank will reveal all information.
- Reveal lever ratio from 2015.

6-3. Auditing committee Report for Latest Year

**COTA Commercial Bank Co., Ltd.,
Auditing committee Report for Year 2018**

March 28, 2018

To: Shareholders' General Meeting of Year 2018

The Business Report, Financial Statement, Consolidated Financial Statement and Earning Distribution of fiscal year 2017, worked out and submitted by COTA Bank board of directors have been duly audited by KPMG Certified Public Accountants, and further verified by us. This Report duly submitted in accordance with Article 219 of the Company Law.

Independent Director : Po-Yao Chi

Independent Director : Kun-Hsien Lin

Independent Director : Tsung-Ta Kuo

6-4. Consolidated Financial Report of Accountants' Examinations for Latest Year

Representation Letter

The entities that are required to be included in the combined financial statements of COTA COMMERCIAL BANK CO., LTD. as of and for the year ended December 31, 2017 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 Standards No. 10 by the Financial Supervisory Commission, "Consolidated and Separate Financial Statements." In addition, the information required to be disclosed in the combined financial statements is included in the consolidated financial statements. Consequently, COTA COMMERCIAL BANK CO., LTD. and its Subsidiaries do not prepare a separate set of combined financial statements.

Company name: COTA COMMERCIAL BANK CO., LTD.

Chairman: Sung-Yie Liao

Date: March 28, 2018

Independent Auditors' Report

To the Board of Directors of COTA Commercial Bank Co., Ltd :

Opinion

We have audited the consolidated financial statements of COTA Commercial Bank Co., Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as of December 31, 2017 and 2016, the consolidated statement of comprehensive income, changes in equity and cash flows for the years ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended December 31, 2017 and 2016 in accordance with The Regulations Governing the Preparation of Financial Reports by Public Banks, and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), Interpretations developed by the International Financial Reporting Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC") 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 Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

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 of the current period. 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. We have determined the matters described below to be the key audit matters to be communicated in our report.

1. Impairment of loan and receivables

Refer to Note 4(g) "Financial Instrument", Note 5(a) "Significant accounting assumptions and judgments, and major sources of estimation uncertainty", and Note 6(e), 6(f), 6(ag) in the consolidated financial statements.

Description of key audit matter:

Loan is the main service for the Group, so the recoverability of loan and receivables has influence on business operating risk. Therefore, valuation of impairment of loan and receivables has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter mentioned above, our principal audit procedures included testing the Company's internal controls about credit rating of client and its supervising procedure; assessing whether collateral assets are evaluated and the crediting document; whether assessing the loans and receivables are properly classified

6. Financial Status

considering the status of credit guarantee and the length of time overdue; evaluating the measurement of loans and receivables impairment is in accordance with the regulation of the Bank and the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.

2. Measurement of investment property impairment

Refer to Note 4(l) "impairment of non-financial assets" for the accounting procedure, and Note 6(k) "investment property" for further description in the consolidated financial statements.

Description of key audit matter:

There are numbers of commercial real estate hold by the Group are rented to others. Lianwu part of land recognized impairment loss caused by market condition in 2008 is revalued by real estate appraiser outside the Group, After comparing the recoverable value provided by appraiser as fair value of land and book value of land, finding that the original evidence for the impairment is no longer exist, so the management reverses the impairment loss. In sight of current unsteady of real estate market, the impairment of investment property is possibly under significant risk. Therefore the measurement of investment property impairment has been identified as a key audit matter.

How the matter was addressed in our audit:

In relation to the key audit matter above, our principal audit procedures included obtaining impairment document prepared by the Group and assessing the rationality of its evaluating procedure and result through internal and outside collectable information.

Other Matter

COTA Commercial Bank Co., Ltd. has prepared its parent-company-only financial statements for reference as of and for the years ended December 31, 2017 and 2016, on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with "Regulations Governing the Preparation of Financial Reports by Public Banks" and IFRSs, IASs IFRC, SIC 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance (Including members of the Audit committee) are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group 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 appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit.

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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shyh-Huar Kuo and Yuan-Chen Mei.

KPMG

Taipei, Taiwan (Republic of China)

March 28, 2018

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

COTA COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016		December 31, 2017		December 31, 2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Assets								
11000 Cash and cash equivalents(note 6(a))	\$ 2,000,561	1	1,768,231	1				
11500 Due from Central Bank and call loans to bank (note 6(b))	7,508,632	5	22,709,616	15	21000 Due to the Central Bank and other banks (note 6(m))	\$ 77,837	-	64,470
12000 Financial assets measured at fair value through profit or loss (note 6(c))	820,000	-	1,796,034	1	22000 Financial liabilities measured at fair value through profit or loss(note 6(c))	16	-	491
12500 Securities purchased under resell agreements(note 6(d))	8,968,517	6	2,102,052	2	23000 Payables(note6(n))	825,747	-	732,650
13000 Receivables, net(note 6(e) and 7)	385,124	-	404,658	-	23200 Current income tax liabilities	82,787	-	2,946
13200 Current income tax assets	6,725	-	6,725	-	23500 Deposits and remittances(note6(o) and 7)	144,335,490	91	139,736,041
13500 Discounts and Loans, net(note 6(f) and 7)	114,538,216	72	111,725,677	73	24000 Subordinate financial debentures(note6(p))	3,300,000	2	3,300,000
14000 Available-for-sale financial assets, net(note 6(g) and 7)	3,736,500	2	6,375,802	4	25600 Provisions(note 6(q) and 6(r))	259,015	-	299,452
14500 Held-to-maturity financial assets, net (note 6(h) and 8)	18,762,940	12	3,525,120	2	29300 Deferred income tax liabilities(note6(s))	110,642	-	115,526
15500 Other financial assets (note 6(i))	182,100	-	186,372	-	29500 Other liabilities	337,280	-	339,951
18500 Property and equipment - net(note 6(j))	1,339,251	1	1,321,946	1	Total liabilities	149,328,814	93	144,591,527
18700 Investment Property - net(note 6(k))	991,733	1	830,192	1	Equity attributable to owners of parent(note6(t)):			
19000 Intangible assets - net(note 6(l))	111,395	-	107,688	-	31101 Common stock	7,625,523	5	6,370,695
19300 Deferred income tax assets(note 6(s))	162,668	-	177,823	-	31500 Capital reserve	910,524	1	898,234
19500 Other assets	105,505	-	70,841	-	32001 Statutory reserve	796,233	-	599,011
					32003 Special Reserve	11,675	-	-
					32005 Undistributed earnings	924,107	1	657,410
					32500 Other items in stockholders' equity	1,732,015	1	1,256,421
					Total equity	22,991	-	(8,100)
Total assets	\$ 159,619,867	100	153,108,777	100	Total liabilities and equity	\$ 159,619,867	100	153,108,777

See accompanying notes to consolidated financial statements.

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

COTA COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**Consolidated Statements of Comprehensive Income****For the years ended December 31, 2017 and 2016**

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

	2017		2016		Change
	Amount	%	Amount	%	%
41000 Interest income(note 6(w) and 7)	\$ 3,497,564	120	3,414,505	125	2
51000 Less:Interest expense (note 6(w) and 7)	991,327	34	1,012,506	37	(2)
Net interest income	2,506,237	86	2,401,999	88	4
Net-interest income net:					
49100 Service fees income, net(note6(x)and7)	246,797	8	318,614	12	(23)
49200 Gain on financial assets or liabilities measured at fair value through profit and loss (note 6(c) and 6(y))	35,581	1	(42,378)	(2)	(184)
49300 Realized Gains on Available-for-sale Financial Assets Abstract	(9,330)	-	-	-	-
49660 Foreign exchange gains (loss), net	(48,616)	(2)	28,005	1	(274)
49700 Reversal of Impairment Loss on Assets Abstract(note6(k))	162,574	6	-	-	-
49800 Other non-interest income, net(note 6(z))	27,675	1	27,798	1	-
Net revenue	2,920,918	100	2,734,038	100	7
58200 Provisions for bad debt expenses and guarantee reserve(Note 6(f) and 6(aa))	(93,114)	(3)	12,120	1	(868)
Operating expenses:					
58500 Personnel expenses (note6(u), 6(ab) and 6(ac))	1,353,753	46	1,297,536	47	4
59000 Depreciation and amortization expenses(note 6(ad))	49,452	2	45,507	2	9
59500 Other general and administrative expenses(note 6(ae))	546,991	18	520,232	19	5
	1,950,196	66	1,863,275	68	5
61001 Net Income Before Tax	1,063,836	37	858,643	31	24
61003 Less: Income tax expenses(note 6(s))	146,554	5	143,826	5	2
Net other income	917,282	32	714,817	26	28
Other comprehensive income:					
65200 Not be reclassified to profit or loss(net of tax)					
65201 Actuarial gains and losses on Defined benefit plans(note 6(r))	5,134	-	(69,172)	(3)	(107)
65220 Less:Income tax related to components of other comprehensive income	(873)	-	11,759	1	(107)
	4,261	-	(57,413)	(2)	(107)
65300 Item that may be reclassified subsequently to profit or loss (net of tax) (note6(t))					
65301 Exchange differences of overseas subsidiaries' financial reports translation	(222)	-	32	-	(794)
65302 Unrealized losses on available-for-sale financial instruments	31,313	1	(56,953)	(2)	(155)
	31,091	1	(56,921)	(2)	(155)
Other comprehensive income	35,352	1	(114,334)	4	(131)
Total comprehensive income	\$ 952,634	33	600,483	22	59
Earnings per share (NT dollars) (note 6(v))					
67500 Basic earnings per share	\$ 1.33		1.08		
67700 Diluted earnings per share	\$ 1.32		1.07		

See accompanying notes to consolidated financial statements.

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

COTA COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Changes in Equity For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars)

	Equity attributable to owners of parent					Total other equity interest		Total equity	
	Share capital	Retained earnings			Unappropriated retained earnings	Exchanges on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets		
Ordinary shares	Capital surplus	Legal reserve	Special reserve	Unappropriated retained earnings	Total retained earnings				
Balance at January 1, 2016	\$ 5,998,771	898,204	388,194	-	702,722	1,090,916	(27)	48,848	8,036,712
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	210,817	-	(210,817)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(119,975)	(119,975)	-	-	(119,975)
Stock dividends of ordinary share	371,924	-	-	-	(371,924)	(371,924)	-	-	-
Other changes in capital surplus:									
Donated capital	-	30	-	-	-	-	-	-	30
Profit for 2016	6,370,695	898,234	599,011	-	6	599,017	(27)	48,848	7,916,767
Other comprehensive income for 2016	-	-	-	-	714,817	714,817	-	-	714,817
Total comprehensive income	-	-	-	-	(57,413)	(57,413)	32	(56,953)	(114,334)
Balance at December 31, 2016	6,370,695	898,234	599,011	-	657,404	657,404	32	(56,953)	600,483
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	197,222	-	(197,222)	-	-	-	-
Special reserve appropriated	-	-	-	11,675	(11,675)	-	-	-	-
Cash dividends of ordinary share	-	-	-	-	(191,121)	(191,121)	-	-	(191,121)
Stock dividends of ordinary share	254,828	-	-	-	(254,828)	(254,828)	-	-	-
Capital increase by cash	1,000,000	-	-	-	-	-	-	-	1,000,000
Other changes in capital surplus:									
Cost of employee stock option	-	11,713	-	-	-	-	-	-	11,713
Donated capital	-	23	-	-	-	-	-	-	23
Dividends not received overtime by shareholders	-	554	-	-	-	-	-	-	554
Profit for 2017	7,625,523	910,524	796,233	11,675	2,564	810,472	5	(8,105)	9,338,419
Other comprehensive income for 2017	-	-	-	-	917,282	917,282	-	-	917,282
Total comprehensive income	-	-	-	-	4,261	4,261	(222)	31,313	35,352
Balance at December 31, 2017	\$ 7,625,523	910,524	796,233	11,675	924,107	1,732,015	(217)	23,208	10,291,053

See accompanying notes to consolidated financial statements.

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

COTA COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**Consolidated Statements of Cash Flows****For the years ended December 31, 2017 and 2016**

(Expressed in Thousands of New Taiwan Dollars)

	2017	2016
Cash flows from (used in) operating activities:		
Profit before tax	\$ 1,063,836	858,643
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	45,841	43,208
Amortization expense	3,611	2,299
Provision (reversal of provision) for bad debt expense	(95,114)	8,120
Interest expense	991,327	1,012,506
Interest income	(3,497,564)	(3,414,505)
Dividend income	(10,499)	(6,508)
Net change in provisions for guarantee liabilities	2,000	4,000
Loss (gain) on disposal of property and equipment	1,886	2,975
Reversal of impairment gain on non-financial assets	(162,574)	-
Cost of employee stock option	11,713	-
Total adjustments to reconcile profit (loss)	<u>(2,709,373)</u>	<u>(2,347,905)</u>
Changes in operating assets and liabilities:		
Changes in operating assets:		
Increase in due from the central bank and call loans to banks	(145,896)	(32,210)
Decrease in financial assets at fair value through profit or loss	976,034	220,626
(Increase) decrease in securities purchased under resell agreements	(6,866,465)	1,552,735
Decrease (increase) in receivables	8,399	(17,964)
Increase in discounts and loans	(2,715,022)	(7,003,153)
Decrease (increase) in available-for-sale financial assets	2,670,615	(2,087,632)
Increase in held-to-maturity financial assets	(15,237,820)	(18,463)
Decrease in other financial assets	4,272	1,329
Increase in other assets	(8,743)	(9,140)
	<u>(21,314,626)</u>	<u>(7,393,872)</u>
Changes in operating liabilities:		
Increase in deposits from the central bank and banks	13,367	-
Decrease in financial liabilities at fair value through profit or loss	(475)	(554)
Increase (decrease) in payable	64,210	(94,232)
Increase in deposits and remittances	4,599,449	4,756,164
Decrease in provisions for employee benefits	(37,278)	(221,149)
Decrease in other liabilities	(2,696)	(19,023)
	<u>4,636,577</u>	<u>4,421,206</u>
Total changes in operating assets and liabilities	<u>(16,678,049)</u>	<u>(2,972,666)</u>
Total adjustments	<u>(19,387,422)</u>	<u>(5,320,571)</u>
Cash outflow generated from operations	(18,323,586)	(4,461,928)
Interest received	3,506,296	3,421,547
Dividends received	10,499	6,508
Interest paid	(962,440)	(1,025,167)
Income taxes refund (paid)	(57,315)	(77,550)
Net Cash flows from (used in) operating activities	<u>(15,826,546)</u>	<u>(2,136,590)</u>
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(58,767)	(37,621)
Proceeds from disposal of property and equipment	777	573
Acquisition of intangible assets	(7,318)	(2,399)
Increase in other assets	(31,930)	4,143
Net cash flows from (used in) investing activities	<u>(97,238)</u>	<u>(35,304)</u>
Cash flows from (used in) financing activities:		
Proceeds from issuing bank notes payable	-	1,800,000
Proceeds from issuing shares	1,000,000	-
Payments to acquire treasury shares	554	-
Proceeds from sale of treasury shares	23	30
Treasury shares sold to employees	(191,121)	(119,975)
Net cash flows from (used in) financing activities	<u>809,456</u>	<u>1,680,055</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(222)</u>	<u>32</u>
Net increase (decrease) in cash and cash equivalents	<u>(15,114,550)</u>	<u>(491,807)</u>
Cash and cash equivalents at beginning of period	<u>20,109,400</u>	<u>20,601,207</u>
Cash and cash equivalents at end of period	<u>\$ 4,994,850</u>	<u>20,109,400</u>
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 2,000,561	1,768,231
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	2,994,289	18,341,169
Cash and cash equivalents at end of period	<u>\$ 4,994,850</u>	<u>20,109,400</u>

See accompanying notes to consolidated financial statements.

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

COTA COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

(1) Company history

COTA Commercial Bank Co., Ltd. (the “Group”) was established in 1915 as a credit cooperative. Effective from January 1, 1999, the Company changed its status to commercial bank and its name to COTA Commercial Bank Co., Ltd. in accordance with the Company Law and the Banking Law. Pursuant to a stockholders’ resolution on September 17, 2005 and as approved by the regulatory authorities, the Company merged Fengyuan Credit Cooperative on January 1, 2006. The Company currently has 30 domestic branches and one offshore banking unit.

The Company is engaged in:

- **Receiving deposits, extending loans, investing in bills and bonds, processing funds remittance, acceptances and guarantees, issuing letters of credit and providing other agency business (except for issuing foreign letters of credit and providing foreign guarantees);**
- **Buying and selling foreign currencies and traveler’s checks;**
- **Credit card related services;**
- **Trust and fiduciary services;**
- **Foreign exchange service as authorized by the Central Bank;**
- **Commercial banking business related to international trade.**

Based on the resolutions approved by the Board of Directors’ meetings on August 26, 2016, the Group and COTA Bank Insurance Brokers Co., Ltd. consolidated for resources integration, cost reduction and operation performance on May 1, 2017. The Group would sustain all operations; however, COTA Bank Insurance Brokers Co., Ltd. would be terminated after consolidation.

(2) Approval date and procedures of the consolidated financial statements:

The Consolidated Financial Statements were approved and announced by the board of directors on March 28, 2017.

(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 following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2017.

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

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

(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, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. The related new, revised or amended standards and interpretations are set out below:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
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
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Group 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:

(Continued)

6. Financial Status

(i) IFRS 9 “Financial Instruments”

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

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. 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. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliably. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. At December 31, 2017, the Group had debt instruments available-for-sale financial assets at FVOCI of 3,736,500 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, impairment losses would be recognized in profit or loss and gains or losses will be reclassified to profit or loss on disposal. In addition, at December 31, 2017, the Group had financial assets measured at cost of 129,892 thousand that are held for long-term strategic purposes. At initial application of IFRS 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in other comprehensive income, no impairment losses would be recognized in profit or loss and no gains or losses will be reclassified to profit or loss on disposal. The Group estimated that the above mentioned would have increased the other equity by 4,500 thousand at January 1, 2018.

2) Impairment-Financial assets and contract assets

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

The new impairment model will apply to financial assets measured at amortized cost or FVOCI, except for investments in equity instruments, and to contract assets.

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

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

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

(Continued)

that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Group believe that the assets belong to IFRS 9 loss model would increase and fluctuate widely. According to IFRS 9, the Group would estimate the allowance for loss in conservative principle and impair the assets. The Group have estimated that the adjustment would result in a decrease in discounts and loans of 24,607 thousand, increases in accumulated impairment - debt instrument measured as amortized cost of 650 thousand, reserve for financing commitment of 23,000 thousand and other equity of 957 thousand at January 1, 2018.

3) Disclosures

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group plans to implement the system and controls changes that it believes will be necessary to capture the required data.

4) Transition

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

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The new hedge accounting requirements should generally be applied prospectively. However, the Group has decided to apply the accounting for the forward element of forward contracts retrospectively.
- 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 and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.

(ii) Amendments to IAS 7 "Disclosure Initiative"

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

To satisfy the new disclosure requirements, the Group present reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(iii) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Loss"

The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The Group estimated that the application of the amendments would not have any material impact.

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

(Continued)

6. Financial Status

(C) The impact of IFRS issued by IASB but not yet endorsed by the FSC

As of the date the following IFRSs that have been issued by the IASB, but not yet endorsed by the FSC:

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IFRS 9 "Prepayment features with negative compensation"	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

Those which may be relevant to The Group are set out below:

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
January 13, 2016	IFRS 16 "Leases"	<p>The new standard of accounting for lease is amended as follows:</p> <ul style="list-style-type: none"> • For a contract that is, or contains, a lease, the lessee shall recognize a right of use asset and a lease liability in the balance sheet. In the statement of profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of-use asset during the lease term. • A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17.

The Group is evaluating the impact on its consolidated financial position and consolidated financial performance upon the initial adoption of the abovementioned standards or interpretations. The results thereof will be disclosed when the Group completes its evaluation.

(4) Summary of significant accounting policies:

Significant accounting policies which consistently adopted by the company and its subsidiaries in accounting period of consolidated financial statements are summarized as below.

(a) Assertion of compliance

The consolidated financial reports were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks (hereinafter referred to the Regulations).

(b) Basis of Compilation

(Continued)

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (including derivative financial instruments);
- 2) Available-for-sale financial assets measured at fair value;
- 3) Defined Benefit liabilities, which are recognized at the present value of defined benefit obligation plus (minus) fair value of pension plan liabilities (assets), unrecognized actuarial losses (gains), and unrecognized service cost.

(ii) Functional currency

The functional currency of the Bank is the currency of the primary economic environment in which it operates. The consolidated financial reports are presented in New Taiwan Dollars, the functional currency of the Company. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(c) Basis of consolidation

(i) Principles of preparation of the consolidated financial statements

The consolidated financial statements comprise the Company and its subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Intra-group balances, and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The financial statements of subsidiaries have been adjusted to conformity of consistency in accounting policies.

(ii) Subsidiaries included in the consolidated financial reports

Name of investor company	Name of Subsidiary	Principal activity	Shareholding	
			December 31, 2017	December 31, 2016
COTA Commercial Bank Co., Ltd	COTA Bank Insurance Brokers Co., Ltd	Property and personal insurance broker	-	100%

COTA Bank Insurance Brokers Co., Ltd had been consolidated with COTA Commercial Bank Co., Ltd on May 1, 2017 and had been registered and approved by the government authorities.

(d) Foreign Currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of

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6. Financial Status

the period adjusted for the effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date when fair value was determined. Nonmonetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss except for difference relating to available for sale equity investment, which are recognized in other comprehensive income

(ii) Foreign operations

Regarding offshore banking unit(OBU), the assets and liabilities reported in functional currencies are translated into New Taiwan dollars at the exchange rates on reporting date; the income and expenses, excluding in hyperinflationary economic situation, are translated into New Taiwan dollars at the rate of exchange prevailing on the date of the transaction date. Exchange differences are recognized as other comprehensive income.

When the settlement of monetary receivables/payables to OBU is neither planned nor likely to happen in the foreseeable future, gains and losses arising from currency exchange are valued as a part of net investment and are recognized as other comprehensive income.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, checks for clearance, checking and demand deposits due from other banks, money deposited in other financial institutions without designated purposes or with unrestricted access and short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents reported in the statement of cash flows are assets that reported in the statement of financial positions, due from central bank, call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC, and securities purchased under resell agreements.

Time deposits with maturities less than one year are aimed for short-term cash commitments instead of investment purposes, subjected to insignificant risk in changes of fair value, and hence are classified as cash and cash equivalents.

(f) Securities under repurchase/resell agreement

Securities sold/purchased with a commitment are treated as financing transactions, which are recorded at cost. The difference between the cost and the repurchase/resell price is treated as interest expenses/revenue and recognized over the term of the agreement.

(g) Financial instruments

Financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instruments.

(i) Financial assets

The Group classifies financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), available-for-sale financial assets, held-to-maturity financial assets, loans and receivables, financial assets carried at costs, and investment in debt securities without active market.

(Continued)

1) Financial assets measured at FVTPL

A financial asset is classified in this category if it is held-for-trading or is designated as financial assets at FVTPL. Financial assets held-for-trading are acquired principally for the purpose of selling or repurchasing in the short term.

The Group designates investment in fair value as financial assets measured at FVTPL.

At initial recognition, financial assets of this category are measured at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent valuation is measured at fair value and changes therein, which takes into account any dividend and interest income, are recognized in profit or loss. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, trade date accounting is used.

2) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated available-for-sale or are not classified in any of the other categories of financial assets. At initial recognition, available-for-sale financial assets are recognized at fair value, plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on monetary financial instruments are recognized in other comprehensive income and unrealized gains (losses) on available-for-sale financial assets in equity. When an available-for-sale investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, under other income. A regular way purchase or sale of financial assets is recognized and derecognized, as applicable, trade date accounting is used.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured, are measured at amortized cost less any impairment loss, and are included in financial assets measured at cost.

Dividend income is recognized in profit or loss on the date when the Group's right to receive payment is established, which in the case of quoted securities is normally the ex-dividend date. Such dividend income is included in other comprehensive income.

3) Held-to-maturity financial assets

If the Group has the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade-date accounting.

Interest income is included in statement of comprehensive income account.

4) Financial assets carried at cost

Equity instruments with no quote market price and whose fair value cannot be reliably measured are stated at cost. If there is objective evidence that financial assets carried at cost are impaired, the carrying amount of the assets is reduced, and impairment loss is recognized. However, the impairment losses may not be reversed subsequently.

5) Loans and receivables

Loans and receivables are financial assets that have no quoted market price with fixed or determinable payment, including receivables, other receivables and debts investment without active market. At initial recognition, these

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6. Financial Status

assets are recognized at fair value, plus, any directly attributable transaction costs. Subsequent to initial recognition, receivables are measured at amortized cost using the effective interest method, less any impairment losses other than insignificant interest on short-term receivables.

Interest income is recognized in profit or loss, and it is included in statement of comprehensive income account.

Loans and receivables shall be transferred to overdue loans account if either of the following situations qualifies:

- 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

According to "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-Performing and Non-Accrual Loans", non-performing loans with interest accrued shall be transferred to overdue loans After 6-month-additional extension of overdue payment. However, the reclassification does not apply to those of agreed installment payments, consultative consumer credit, and cases executed by the "Statute for Consumer Debt Clearance".

Reclassified overdue loans are assorted into discounts and loans, while other overdue receivables reclassified from guarantees, acceptances, factoring accounts receivable, and receivables-other credit card are classified as other financial assets.

Outstanding balances of overdue loans' unrecoverable parts are written-off under approval of board of directors.

6) Impairment of financial assets

Except for financial assets at fair value through profit or loss, financial assets are assessed for impairment at each reporting date. A financial asset is impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers, economic conditions that correlate with defaults, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

A. Available-for-sale financial assets

When impairment loss of available-for-sale financial assets are recognized, the accumulated gains and losses exist in other comprehensive income are reclassified to profit or loss. Impairment losses of available-for-sale equity security cannot be reversed through profit or loss. Any subsequent recovery in fair value from impairment is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss.

B. Held-to-maturity financial assets

Impairment loss in respect of financial assets measured at amortized cost is the difference between its carrying amount and present value of the estimated future cash flows discounted at the asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized

(Continued)

cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through profit or loss to the extent that the carrying value of the asset does not exceed its amortized cost before impairment was recognized at the reversal date.

C. Loans and receivables

The ending balance of the allowance for bad debts and the guarantee liability provision on all credit assets on and off the balance sheets is in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, with consideration given to the status of loan collateral and the length of time overdue. The Group of balance classifies credit assets into normal credit assets, assets that require special mention, assets that are substandard, assets that are doubtful, and assets for which there is a loss. The allowance for doubtful debt for each category of credit assets is 1%, 2%, 10%, 50% and 100%, respectively. The allowance for doubtful debt on credit card receivables is in accordance with the "Regulations Governing Institutions Engaging in Credit Card Business". The abovementioned regulations are the minimum standards on allowance for bad debts for credit assets on and off the balance sheets.

For loans and receivables, the objective evidence should be identified first to reveal any impairment existing for financial assets that are individually significant, and individual or collective impairment for financial assets that are individually insignificant. If no objective evidence of impairment exists in an individually assessed financial asset, it should be included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. For assets with recognized impairment losses already, the aforementioned

Assessment method is not required. For loans and receivables with objective evidence of impairment but without incurred impairment loss, they are not required to be included in portfolio of similar credit risk characteristics for collective assessment after considering all significant risks exists in the current situation.

If there any objective evidence that an impairment loss on financial assets has incurred, the amount of the loss is shows 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 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.

An impairment loss in respect of a financial asset is deducted from the carrying amount except for accounts receivable, for which an impairment loss is reflected in an allowance account against the receivables. When it is determined a receivable is uncollectible, it is written off from the allowance account. While the allowance, which

(Continued)

6. Financial Status

is written off, is collected, the allowance account should be credited. Changes in the amount of the allowance account are recognized in profit or loss.

D. Financial assets carried at costs

An impairment loss in respect of a financial asset measured at amortized cost is the difference between its carrying amount and the present value of its estimated future cash flows discounted at the asset's original effective interest rate. Such impairment loss is not reversible in subsequent periods.

7) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the group transfers substantially the ownership of all risks rewards of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received or receivable and any cumulative gain or loss that had been recognized in other comprehensive income and presented in other equity account unrealized gains or losses from available for sale financial assets is recognized as profit or loss under "other gains and losses, net".

The Group separates the part that continues to be recognized and the part that is derecognized based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized, and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income, shall be recognized in profit or loss.

(ii) Financial liabilities and equity instruments

1) Classification of debt or equity

Debt or equity instruments issued by the Bank are classified as financial liabilities or equity instruments in accordance with the substance of the contractual agreement.

2) Financial liabilities measured at FVTPL

Financial liabilities are classified as held-for-trading if they are acquired principally for the purpose of selling or repurchasing in a short term.

Attributable transaction costs are recognized in profit or loss as incurred; Subsequent changes in value, including interest expense, are measured at FVTPL through profit or loss.

3) Other financial liabilities

Financial liabilities not classified as held for trading or designated as at fair value through profit or loss are measured at fair value, plus any directly attributable transaction costs at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method. Interest expense not capitalized as capitalized cost is recognized in profit or loss, and included in operating costs.

4) Derecognition of a financial liability

The Group derecognizes a financial liability when its contractual obligation has been discharged or cancelled, or has expired. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

5) Offsetting of financial assets and liabilities

(Continued)

The Group presents its financial assets and liabilities on a net basis when the Group has the legally enforceable rights to offset, and intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate fluctuation exposures. At initial recognition, derivatives are recognized at fair value; and attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein, are recognized in profit or loss. When a derivative is designated as a hedging instrument, the timing for recognizing gain or loss is determined on the nature of the hedge. When the fair value of a derivative instrument is positive, it is classified as a financial asset; otherwise, it is classified as a financial liability.

(h) Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at cost less accumulated depreciation and accumulated impairment losses. Depreciation expense is calculated based on the depreciation method, useful life, and residual value which are the same as those adopted for property, plant and equipment. Cost includes expenditure that is directly attributable to the acquisition of the investment property.

When the use of an investment property changes such that it is reclassified as property, plant and equipment, its book value at the date of reclassification becomes its cost for subsequent accounting.

(i) Property, plant, and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributed to the acquisition of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately unless the useful life and depreciation method of that significant part are the same as those of another significant part of that same item.

The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, and it shall be recognized in profit or loss, under net other income and expenses of profit or loss.

(ii) Subsequent cost

Subsequent expenditure is capitalized only when it is probable that future economic benefits associated with the expenditure will flow to the Group. The carrying amount of those parts of fixed assets that are replaced is derecognized. Ongoing repairs and maintenance are expensed as incurred.

(iii) Depreciation

Depreciation is calculated on the cost of an asset less its residual value and is recognized in profit or loss on a straight line basis over the estimated useful lives of each component of an item of property, plant and equipment. Items of

(Continued)

6. Financial Status

property, plant and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately.

Leased assets are depreciated by using the straight line method during the period of expected use, consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise, the asset is depreciated over the shorter of the lease term and its useful life.

Land has an unlimited useful life and therefore is not depreciated.

The estimated useful lives for the current and comparative years of significant items of property, plant and equipment are as follows:

- (1) Buildings : 8 years ~ 80 years
- (2) Operating equipment : 1 year ~ 20 years
- (3) Transportation equipment : 6 years ~ 12 years
- (4) Miscellaneous equipment : 3 year ~ 50 years
- (5) The significant portion of buildings and their useful life are as follow :

Item	useful life
Buildings	
Main building	60 years ~ 80 years
Premises Renovation	8 years

The depreciation methods, useful lives, and residual values are reviewed at each reporting date. If expectations differ from the previous estimates, the changes are accounted for as changes in an accounting estimate.

- (iv) Reclassification to investment property

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

(j) Lease

- (i) Lessor

Lease income from an operating lease is recognized in income on a straight-line basis over the lease term. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same basis as the lease income. In order to earn lease income, incurred costs would be recognized as expense, such as depreciation.

- (ii) Lessee

Leases in which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the lease asset is measured at an amount equal to the lower of its fair value or the present of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

(Continued)

Other leases are operating leases and are not recognized in the Group's statement of financial position.

Payments made under operating lease (excluding insurance and maintenance expenses) are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(k) Intangible assets

(i) Computer software

Computer software system expenses, which are recorded on the basis of the cost of acquisition less accumulated depreciation and accumulated impairment, are amortized using a straight-line method over a period of 3 to 10 years. The amortization is recognized in profit or loss.

Its amortization method, useful life and residual value are referred to the regulation of properties and equipment. If the property is change, the change is accounted for as a change in an accounting estimate.

(ii) Goodwill

Goodwill derives from enterprise acquisition is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses. Impairment loss on equity investment in investees accounted for under the equity method is not allocated to any asset, including goodwill that forms part of the carrying amount of such investment.

(l) Impairment of non-financial assets

The carrying amounts of the Group non-financial assets, other than assets arising from deferred tax assets and assets arising from employee benefits, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If it is not possible to determine the recoverable amount (fair value less cost to sell and value in use) for the individual asset, then the Group determine the recoverable amount for the asset's cash-generating unit (CGU).

The recoverable amount for individual asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. The excess of carrying amount of the asset over its recoverable amount is recognized as an impairment loss which is charged to profit or loss.

An assessment is made at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of that asset is estimated.

An impairment loss recognized in prior periods for an asset other than goodwill is reversed if, and only if, there has been an improvement in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

Notwithstanding whether indicators exist, recoverability of goodwill and intangible assets with indefinite useful lives or those not yet in use is tested at least annually. Impairment loss is recognized if the recoverable amount is less than the carrying amount.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the acquirer's cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

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6. Financial Status

If the carrying amount of each of the cash-generating units exceeds the recoverable amount of the unit, impairment loss is recognized and is allocated to reduce the carrying amount of each asset in the unit.

Reversal of an impairment loss for goodwill is prohibited.

(m) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and an outflow of economic benefits is possibly required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(n) Financial guarantee contract

The Group recognized financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Group receives commission income with 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 contract period of the financial guarantee.

(o) Revenue recognition

Interest revenues raised from credits are estimated on an accrual basis. All interest accrued shall be suspended from the date the loans are classified as nonperforming loans. Interest earned from nonperforming loans shall be recognized as interest income when the interest has been collected by the Group. If the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue, classified into other liability and recognized as income when collected.

Service fee income is recognized when collected or when the majority of project is completed. Service fee income is received when loans and receivables are recognized. The service fee incomes which are caused by loans or receivables shall be recognized as interest revenue when they meet a suggested policy announced by the Bankers Association of the Republic of China. This policy requires an individual loan that meets the materiality criteria to have its effective interest rate be consistent with its interest revenue. Overall, the service fees shall be adjusted from the original agreed interest rate to the effective interest rate.

Rental income of a property is incurred during the lease term. Incentives granted to the lessee to enter into the operating lease are spread over the lease term on a straight-line basis so that the lease income received is reduced accordingly.

(p) Employee benefits

(i) Short-term employee benefit

Short-term employee benefit obligations are measured on an undiscounted basis and expensed as the related services are provided.

A liability is recognized at expected amount of short-term cash bonus or profit-sharing plans if present legal or constructive obligations resulted from past service provided by the employee can be estimated reliably.

(ii) Post-employment benefit: The Group's pension plan comprises defined contribution plan and defined benefit plan.

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1) Defined contribution plans

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.

2) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, based on the discounted present value of the said defined benefit obligation. Any unrecognized past service costs and the fair value of any plan assets are deducted for purposes of determining the Group's net defined benefit obligation. The discount rate used in calculating the present value is the market yield at the reporting date of government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. If the calculation results in a benefit to the Group, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. In calculating the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Group. An economic benefit is available to the Group if it is realizable during the life of the plan, or on settlement of the plan liabilities.

If the benefits of a plan are improved, the pension cost incurred from the portion of the increased benefit relating to past service by employees is recognized immediately in profit or loss.

The Group's defined benefit pension plan follows the Labor Standards Act. Pension payments to employees are calculated based on years of service and average salary upon retirement. The Group will make monthly contributions to the employees' pension accounts, which are managed by the Employee Pension Fund Committee, and the contributions are deposited in the employees' pension accounts with Bank of Taiwan. The pension fund for management is contributed 8% of salaries to individual pension accounts monthly.

Re-measurements of a net defined benefit liability (asset), which comprise (1) actuarial gains and losses; (2) the return on plan assets (excluding interest), and (3) the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Group can reclassify the amounts recognized in other comprehensive income to retained earnings or other equity. If the amounts recognized in other comprehensive income are transferred to other equity, they shall not be reclassified to profit or loss or recognized in retained earnings in a subsequent period. The Group recognizes re-measurements of defined benefits plan in retained earnings.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. The gain or loss on curtailment or settlement arises from any change in the fair value of plan assets and any change in the present value of the defined benefit obligation.

(iii) Deposits with favorable rate

The Group provides deposits with favorable rate to employees, which include fix amount deposits with favorable rate for current employees and post-employment fix amount deposits with favorable rate for retired and current employees. The rate difference between the favorable rate and the market rate is considered employee benefit.

(Continued)

6. Financial Status

According to article 30 of “Regulations Governing the Preparation of Financial Report by Public Banks”, the additional interests resulted from the difference between deposit with favorable rate and the deposits with market interest rate need actuary per the regulations related to defined benefit plan in IAS 19 . The parameters of actuarial assumptions should obey the competent authority if any regulation is applicable.

(q) Share-based payment

The grant-date fair value of share-based payment awards granted to employee is recognized as employee salary expenses, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

For share-based payment awards, the grant-date fair value of the share-based payment considers such non-vesting conditions and there is no true-up for differences between expected and actual outcomes.

(r) 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 are recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

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 taxes are recognized except for the following:

- (i) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (ii) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not reverse.
- (iii) Initial recognition of goodwill.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, which are normally the 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:

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

(Continued)

A deferred tax asset is 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 are 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.

Effectuated amounts of tax directly recognized in other comprehensive income are measured by temporary difference between the book value of related asset and liability and its taxing base multiplied with tax rate that is expected to apply to the period when the asset is realized and the liability is settled.

The surtax on inappropriate earnings of 10% is expensed in the year of shareholder approval.

Reserve for land revaluation increment tax which is generated from land re-evaluated in accordance with reference law and regulations is taxable temporary difference and is recognized as deferred tax liability.

(s) Earnings per share (EPS)

The Group discloses the Group's basic and diluted earnings per share attributable to ordinary equity holders of the Group. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Group divided by the weighted-average number of ordinary shares outstanding. The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders of the Group, divided by the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares.

(t) Operating segment information

An operating segment is a component of an entity 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 same entity). The segment's operating results are reviewed regularly by the entity's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance for which discrete. Each operating segment consists of standalone financial information.¹²

(5) Significant accounting assumptions and judgments, and major sources of estimation uncertainty:

The preparation of the consolidated financial statements in conformity with the Regulations and the IFRSs endorsed by the FSC requires management to make judgments, estimates, and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income, and expenses. Actual results may differ from these estimates.

The management continues to monitor the accounting estimates and assumptions. The management recognizes any changes in accounting estimates during the period and the impact of those changes in accounting estimates in the following period.

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the consolidated financial statements is as follows:

(Continued)

6. Financial Status

(a) Impairment loss on loans and receivables

When the Group decides whether to recognize impairment loss, they mainly assess if there are any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or local economic situation related to debt payment in arrears. When analyzing expected cash flow, the estimates by the management are based on past losses experience on assets of similar credit risk characteristics.

The Group quarterly reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss. Please refer to Note 6(ag) for impairment loss on loans.

(b) Impairment of goodwill

The assessment of impairment of goodwill requires the Group to make subjective judgments to identify cash-generating units, allocate the goodwill to relevant cash-generating units, and estimate the recoverable amount of relevant cash-generating units. Refer to note 6(1) for further description of the impairment of goodwill.

(c) Measurement of defined benefit obligations

Accrued pension liabilities and resulting pension expenses under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, rate of employee turnover, future salary increase rate, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability. Refer to note 6(r) for further description of the actuarial assumptions and sensitivity analysis.

The Group's accounting policies include measuring financial and non-financial assets and liabilities at fair value through profit or loss. The Group's financial instrument valuation group conducts independent verification on fair value by using data sources that are independent, reliable, and representative of exercise prices. This financial instrument valuation group also periodically adjusts valuation models, conducts back-testing, renews input data for valuation models, and makes all other necessary fair value adjustments to assure the rationality of fair value. The Group strives to use market observable when measuring assets and liabilities. Different levels of the fair value hierarchy to be used in determining the fair value of financial instruments are as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identifiable assets or liabilities.
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices).
- (c) Level 3: inputs for the assets or liability that are not based on observable market data.

(6) Explanation of significant accounts:

(a) Cash and Cash Equivalents

	December 31, 2017	December 31, 2016
Cash	\$ 1,468,709	1,378,262
Checks on hand for clearance	166,140	139,438
Deposits from other banks	365,712	250,531
	<u>\$ 2,000,561</u>	<u>1,768,231</u>

(Continued)

The cash and cash equivalents presented in the statement of cash flows had the following components, please refer to note 6(b).

	December 31, 2017	December 31, 2016
Cash and cash equivalents in the statement of financial position	\$ 2,000,561	1,768,231
Due from Central Bank and call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC	2,994,289	18,341,169
Cash and cash equivalents reported in the Statement of Cash Flows	\$ 4,994,850	20,109,400

(b) Due from the Central Bank and Call Loans to Banks

	December 31, 2017	December 31, 2016
Deposit reserve - checking accounts	\$ 1,811,565	1,759,498
Deposit reserve - demand accounts	4,098,736	3,963,520
Deposit reserve - foreign currency deposits	4,179	4,519
Certificate of deposits	-	15,000,000
Call loans to banks	1,182,724	1,581,671
Deposits with Financial Information Service Co., Ltd.	411,428	400,408
	\$ 7,508,632	22,709,616

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.

Due from Central Bank and call loans to bank following the definition of cash and cash equivalents under IAS 7 as accepted by FSC are as follows:

	December 31, 2017	December 31, 2016
Call loans to banks	\$ 1,182,724	1,581,671
Certificate of deposits	-	15,000,000
Required reserve—Account A	1,811,565	1,759,498
	\$ 2,994,289	18,341,169

(c) Financial Assets (Liabilities) Measured at Fair Value Through Profit or Loss

	December 31, 2017	December 31, 2016
Financial assets held for trading		
Securities of listed companies	\$ 36,572	76,185
Beneficiary certificates	40,000	248,776
Convertible bonds	4,500	-

(Continued)

6. Financial Status

Derivatives	6,392	1,245
Sub-total	87,464	326,206
Designated as measured at fair value through profit or loss		
Convertible bonds	732,536	1,469,828
	\$ 820,000	1,796,034

	December 31, 2017	December 31, 2016
Financial liabilities held for trading		
Derivatives	\$ 16	491

The Group engages in derivative transactions to mitigate exchange rate risks and interest rate risks. The Group's financial hedging policy is to minimize its market price or cash flow exposures.

The nominal amount information of outstanding derivative contracts as of December 31, 2017 and 2016 was as follows:

	December 31, 2017	December 31, 2016
Derivative contracts	\$ 900,388	734,255

The net gains (losses) on financial assets held for trading for the years ended December 31, 2017 and 2016, were \$35,106 thousands and \$(42,933) thousands, respectively. The net gains (losses) on financial liabilities held for trading for the years ended December 31, 2017 and 2016 were \$475 thousands and \$555 thousands, respectively.

(d) Securities purchased under resell agreements

Securities purchased under resell agreements, and their sold back amounts, using determined price were as follow:

	December 31, 2017			
Item	Bond Book value	Resell agreement	Resell Price	Resell Price
Reverse sell agreement				
Commercial papers	\$ 7,768,300	7,758,004	7,758,611	Resell gradually before 2018.01.12
Corporate bonds	1,147,300	1,150,483	1,150,586	Resell gradually before 2018.01.08
Government bonds	55,000	60,030	60,035	Resell gradually before 2018.01.05
	\$ 8,970,600	8,968,517	8,969,232	

	December 31, 2016			
Item	Bond Book value	Resell agreement	Resell Price	Resell Price
Reverse sell agreement				
Commercial papers	\$ 1,903,800	1,902,052	1,902,268	Resell gradually before 2017.02.14
Government bonds	200,000	200,000	200,022	Resell gradually before 2017.01.09
	\$ 2,103,800	2,102,052	2,102,290	

(Continued)

(e) Receivables, net

	December 31, 2017	December 31, 2016
Credit card accounts receivable	\$ 149,212	144,967
Interest receivable	221,320	230,052
Tax refund receivable	-	11,003
Accrued income	8,699	563
Guarantee payments Receivable	8,747	5,736
Others	38,433	52,842
Sub-total	426,411	445,163
Less: allowance for doubtful accounts	(41,287)	(40,505)
	\$ 385,124	404,658

Please refer to Note 6(ag) for the assessment of allowance for possible losses on receivables.

(f) Discounts and loans -net

	December 31, 2017	December 31, 2016
Exchanges and export bills negotiated	\$ 11,119	921
Overdrafts	66,485	59,043
Short-term loans	15,095,647	14,490,000
Medium-term loans	70,032,972	68,192,846
Long-term loans	31,296,993	31,083,689
Overdue loans	157,876	119,388
Sub-total	116,661,092	113,945,887
Less: allowance for loan losses	(1,858,664)	(1,962,647)
discount	(264,212)	(257,563)
	\$ 114,538,216	111,725,677

Please refer to Note 6(ag) for the assessment of allowance for possible losses on discounts and loans.

The change in allowance for loan losses for the years ended December 31, 2017 and 2016 was as follows:

	2017	2016
Beginning balance	\$ 2,003,225	2,256,927
(Reversal) provision	(95,114)	8,120
Recovery of written-off credits	288,081	227,634
Write-offs	(295,721)	(489,367)
Effects of exchange rate changes	(471)	(89)
Ending balance	\$ 1,900,000	2,003,225

(Continued)

6. Financial Status

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

	December 31, 2017	December 31, 2016
Corporate bonds	\$ <u>3,736,500</u>	<u>6,375,802</u>

None of government bonds were provided and deposited as trust compensation reserve as of December 31, 2017 and 2016.

(h) Held-to-Maturity Financial Assets

	December 31, 2017	December 31, 2016
Government bonds	\$ 1,015,946	821,401
Corporate bonds	2,617,443	2,564,312
Negotiable certificates of deposit	15,000,000	-
Financial debentures	128,551	138,407
Time deposits due from banks	1,000	1,000
	\$ <u>18,762,940</u>	<u>3,525,120</u>

Government bonds placed as deposits in courts as of December 31, 2017 and 2016 were \$145,900 thousands and \$58,000 thousands, respectively. Government bonds provided and deposited as trust compensation reserve as of December 31, 2017 and 2016 were \$50,000 thousands.

(i) Other Financial Assets-net

	December 31, 2017	December 31, 2016
Overdue receivables	\$ 98	145
Less: allowance for bad debts	(49)	(73)
Net	49	72
Financial assets carried at cost	129,892	129,892
Debts investment without active market	52,159	56,408
	\$ <u>182,100</u>	<u>186,372</u>

1) Financial assets carried at cost:

	December 31, 2017		December 31, 2016	
	Book Value	Ownership %	Book Value	Ownership %
Taiwan Asset Management Corp.	\$ 75,000	0.57	75,000	0.57
Taiwan Financial Asset Service Corp.	50,000	2.94	50,000	2.94
Taiwan Depository & Clearing Corporation	4,639	0.08	4,639	0.08
Sunny Asset Management Corporation	253	0.42	253	0.42
	\$ <u>129,892</u>		<u>129,892</u>	

2) Debts investment without active market

	December 31, 2017	December 31, 2016
Auction Rate Security	\$ 59,696	64,558
Less: accumulated impairment	(7,537)	(8,150)
	\$ <u>52,159</u>	<u>56,408</u>

(Continued)

(j) Property, plant and equipment

The cost, depreciation, and impairment of the property, plant and equipment of the Group were as follows:

	Land	Buildings	Operating equipment	Transportation equipment	Miscellaneous equipment	Leasehold improvements	Work-in process	Total
Cost								
Balance at January 1, 2017	\$ 828,818	601,349	127,036	34,834	197,515	87,639	7,550	1,884,741
Additions	-	244	12,829	1,390	8,414	8,340	27,550	58,767
Disposals	-	-	(11,053)	(1,877)	(682)	(148)	-	(13,760)
Reclassification	-	35,100	4,389	-	1,620	-	(35,100)	6,009
Balance at December 31, 2017	<u>\$ 828,818</u>	<u>636,693</u>	<u>133,201</u>	<u>34,347</u>	<u>206,867</u>	<u>95,831</u>	<u>-</u>	<u>1,935,757</u>
Balance at January 1, 2016	\$ 828,818	601,349	132,732	32,916	198,678	72,728	-	1,867,221
Additions	-	-	6,990	4,414	3,739	14,928	7,550	37,621
Disposals	-	-	(13,757)	(2,496)	(4,902)	(17)	-	(21,172)
Reclassification	-	-	1,071	-	-	-	-	1,071
Balance at December 31, 2016	<u>\$ 828,818</u>	<u>601,349</u>	<u>127,036</u>	<u>34,834</u>	<u>197,515</u>	<u>87,639</u>	<u>7,550</u>	<u>1,884,741</u>
Depreciation and impairment losses:								
Balance at January 1, 2017	\$ -	(265,221)	(85,938)	(12,686)	(160,026)	(38,924)	-	(562,795)
Depreciation for the period	-	(10,639)	(13,134)	(3,551)	(8,198)	(9,286)	-	(44,808)
Disposals	-	-	9,035	1,232	682	148	-	11,097
Balance at December 31, 2017	<u>\$ -</u>	<u>(275,860)</u>	<u>(90,037)</u>	<u>(15,005)</u>	<u>(167,542)</u>	<u>(48,062)</u>	<u>-</u>	<u>(596,506)</u>
Balance at January 1, 2016	\$ -	(255,371)	(83,913)	(11,142)	(156,582)	(31,236)	-	(538,244)
Depreciation for the period	-	(9,850)	(12,854)	(3,429)	(8,337)	(7,705)	-	(42,175)
Disposals	-	-	10,829	1,885	4,893	17	-	17,624
Balance at December 31, 2016	<u>\$ -</u>	<u>(265,221)</u>	<u>(85,938)</u>	<u>(12,686)</u>	<u>(160,026)</u>	<u>(38,924)</u>	<u>-</u>	<u>(562,795)</u>
Carrying amounts:								
Balance at December 31, 2017	<u>\$ 828,818</u>	<u>360,833</u>	<u>43,164</u>	<u>19,342</u>	<u>39,325</u>	<u>47,769</u>	<u>-</u>	<u>1,339,251</u>
Balance at January 1, 2016	<u>\$ 828,818</u>	<u>345,978</u>	<u>48,819</u>	<u>21,774</u>	<u>42,096</u>	<u>41,492</u>	<u>-</u>	<u>1,328,977</u>
Balance at December 31, 2016	<u>\$ 828,818</u>	<u>336,128</u>	<u>41,098</u>	<u>22,148</u>	<u>37,489</u>	<u>48,715</u>	<u>7,550</u>	<u>1,321,946</u>

No premise or equipment was pledged as collateral.

(Continued)

6. Financial Status

(k) Investment Property, net

	Land	Buildings	Total
Cost:			
Balance at December 31, 2017 (Balance at January 1, 2017)	\$ <u>1,093,531</u>	<u>62,005</u>	<u>1,155,536</u>
Balance at December 31, 2016 (Balance at January 1, 2016)	\$ <u>1,093,531</u>	<u>62,005</u>	<u>1,155,536</u>
Depreciation and impairment losses:			
Balance at January 1, 2017	\$ (293,669)	(31,675)	(325,344)
Depreciation for the period	-	(1,033)	(1,033)
Reversal of impairment loss	<u>162,574</u>	<u>-</u>	<u>162,574</u>
Balance at December 31, 2017	\$ <u>(131,095)</u>	<u>(32,708)</u>	<u>(163,803)</u>
Balance at January 1, 2016	\$ (293,669)	(30,642)	(324,311)
Depreciation for the period	-	(1,033)	(1,033)
Balance at December 31, 2016	\$ <u>(293,669)</u>	<u>(31,675)</u>	<u>(325,344)</u>
Carrying amounts:			
Balance at December 31, 2017	\$ <u>962,436</u>	<u>29,297</u>	<u>991,733</u>
Balance at January 1, 2016	\$ <u>799,862</u>	<u>31,363</u>	<u>831,225</u>
Balance at December 31, 2016	\$ <u>799,862</u>	<u>30,330</u>	<u>830,192</u>

Investment property comprises a number of commercial properties that are leased to third parties. Each of the leases contains an initial non-cancellable period of one to five years. Subsequent renewals are negotiated with the lessee. No contingent rents are charged.

The fair value of investment property (as disclosed in the financial statements) is based on a valuation by an internal or independent external value which holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. The fair value of investment property as of December 31, 2017 and 2016 are \$1,187,389 thousands and \$1,153,011 thousands, respectively.

Based on the results of the Group's assessment, a \$162,574 thousands reversal gain of impairment losses on investment property is recognized for the year ended December 31, 2017.

Related rent revenue and direct operating expenses are as below:

	2017	2016
Rent revenue	\$ <u>20,046</u>	<u>19,535</u>
Direct operating expenses	\$ <u>1,033</u>	<u>1,033</u>

No investment property was pledged as collateral.

(Continued)

(I) Intangible assets

The costs of intangible assets, amortization, and the impairment loss of the Group as of and for the years ended December 31, 2016 and 2015, were as follows:

	Goodwill	Software	Total
Cost:			
Balance at January 1, 2017	\$ 154,027	19,449	173,476
Additions	-	7,318	7,318
Decreases	-	(3,916)	(3,916)
Balance at December 31, 2017	<u>\$ 154,027</u>	<u>22,851</u>	<u>176,878</u>
Balance at January 1, 2016	\$ 154,027	17,050	171,077
Additions	-	2,399	2,399
Balance at December 31, 2016	<u>\$ 154,027</u>	<u>19,449</u>	<u>173,476</u>
Amortization:			
Balance at January 1, 2017	\$ 51,738	14,050	65,788
Amortization for the period	-	3,611	3,611
Decreases	-	(3,916)	(3,916)
Balance at December 31, 2017	<u>\$ 51,738</u>	<u>13,745</u>	<u>65,483</u>
Balance at January 1, 2016	\$ 51,738	11,751	63,489
Amortization for the period	-	2,299	2,299
Balance at December 31, 2016	<u>\$ 51,738</u>	<u>14,050</u>	<u>65,788</u>
Carrying amounts:			
Balance at December 31, 2017	<u>\$ 102,289</u>	<u>9,106</u>	<u>111,395</u>
Balance at January 1, 2016	<u>\$ 102,289</u>	<u>5,299</u>	<u>107,588</u>
Balance at December 31, 2016	<u>\$ 102,289</u>	<u>5,399</u>	<u>107,688</u>

Goodwill represents the excess of consideration over the net fair value of acquired tangible assets, identifiable intangible assets and liabilities in the acquisition of Fengyuan Credit Cooperative on January 1, 2006.

Fengyuan Credit Cooperative's original business and goodwill are identified as one cash-generating unit (CGU) in impairment test. The recoverable value of the CGU is based on the key assumptions such as operating revenues, operating costs, operating expenses and discount rate.

The Group's goodwill has been tested for impairment, where the recoverable amount is determined based on the value in use. The goodwill impairment loss cumulative amounted to \$51,738 thousands.

No intangible assets were pledged as collateral.

(Continued)

6. Financial Status

(m) Due to the Central Bank and Other Banks

	December 31, 2017	December 31, 2016
Postal deposits accepted	\$ 64,470	64,470
Call Loans to Banks	13,367	-
Postal deposits accepted	<u>\$ 77,837</u>	<u>64,470</u>

(n) Payables

	December 31, 2017	December 31, 2016
Interest payable	\$ 154,894	126,007
Tax payable	31,951	32,091
Collections payable	41,165	38,620
Accrued expenses	368,856	331,111
Checks awaiting clearance	166,140	139,438
Others	62,741	65,383
	<u>\$ 825,747</u>	<u>732,650</u>

(o) Deposits and Remittances

	December 31, 2017	December 31, 2016
Checking accounts	\$ 2,100,611	2,152,308
Cashiers' checks	217,374	430,505
Certified Cashier's Checks	335	-
Demand deposits	19,318,540	17,789,525
Time deposits	30,806,320	28,126,113
Demand savings deposits	37,773,158	36,183,461
Time savings deposits	54,112,207	55,042,354
Inward Remittance	6,945	11,775
	<u>\$ 144,335,490</u>	<u>139,736,041</u>

(p) Subordinate Financial Debentures

	December 31, 2017	December 31, 2016
Subordinate financial debentures	<u>\$ 3,300,000</u>	<u>3,300,000</u>

(i) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the board of directors of the Group resolved to issue subordinate financial debentures in a total amount of \$1,800,000 thousands on June 23, 2016, which was approved by the regulation authorities on September 5, 2016. The Group issued these debentures on November 16, 2016, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From November 16, 2016 to November 16, 2023.

(Continued)

- 3) Interest rate: For 100-1A, 2.1%.
 - 4) Interest accrual: Annually accrued and paid since the issued date.
 - 5) Repayment of principal: Outright repayment of principal at maturity.
- (ii) In order to increase the capital adequacy and raise medium-term and long-term operating funds, the board of directors of the Group resolved to issue subordinate financial debentures in a total amount of \$1,500,000 thousands on June 24, 2010, which was approved by the regulation authorities on September 10, 2010. The Group issued these debentures on March 29, 2011, and the subscription was completed during the year.

The details were as follows:

- 1) Issue price: At face value.
- 2) Issue period: From March 29, 2011 to March 29, 2018.
- 3) Interest rate: For 100-1A, 3.2%. For 100-1B, based on the Group's term deposits regular rate plus 1.65%.
- 4) Interest accrual: Annually accrued and paid since the issued date.
- 5) Repayment of principal: Outright repayment of principal at maturity.

(q) Provisions

	December 31, 2017	December 31, 2016
Provision for guarantees	\$ 39,502	37,527
Provision for employee benefits	219,513	261,925
	\$ 259,015	299,452

(r) Employee benefits

	December 31, 2017	December 31, 2016
Defined benefit plans	\$ 159,735	200,935
Employee Promotions Deposits plans	59,778	60,990
	\$ 219,513	261,925

- (i) Defined benefit plans:

The reconciliation in the present value of defined benefit obligations and fair value of plan assets as follows:

	December 31, 2017	December 31, 2016
Total present value of obligations	\$ 1,034,706	1,040,427
Fair value of plan assets	(874,971)	(839,492)
Recognized liabilities for defined benefit obligations	\$ 159,735	200,935

The Group makes defined benefit plan contributions to the pension fund account in the Bank of Taiwan. Plans (covered by the Labor Standards Law) entitle a retired employee to receive retirement benefits based on the years of service and the average monthly salary for six months prior to retirement.

- 1) Composition of plan assets

The Group allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final

(Continued)

6. Financial Status

financial statements shall be no less than the earnings attainable from two-year time deposits with interest rates offered by local banks

The Group's Bank of Taiwan labor pension reserve account balance amounted to \$874,971 thousands as of December 31, 2017. For information on the utilization of the labor pension fund assets including the asset allocation and yield of the fund, please refer to the website of the Labor Pension Fund Supervisory Committee.

2) Change in present value of defined benefit obligations

The change in present value of defined benefit obligations were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligation at January 1	\$ 1,040,427	1,001,464
Current service costs and interest	34,631	38,769
Actuarial (losses) gains	(6,571)	62,556
Benefits paid by the plan assets	<u>(33,781)</u>	<u>(62,362)</u>
Defined benefit obligation at December 31	<u>\$ 1,034,706</u>	<u>1,040,427</u>

3) Change in fair value of defined benefit plan assets

The change in the fair value of defined benefit plan assets was as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets at January 1	\$ 839,492	642,146
Expected return on plan assets	11,600	12,214
Actuarial gains (losses)	(1,437)	(6,616)
Benefits paid by the plan assets	52,291	252,929
Contributions made	<u>(26,975)</u>	<u>(61,181)</u>
Fair value of plan assets at December 31	<u>\$ 874,971</u>	<u>839,492</u>

4) Expenses recognized in profit or loss

The expenses recognized in profits or losses were as follows:

	<u>2017</u>	<u>2016</u>
Current service costs	\$ 20,626	20,321
Net Interest on the defined benefit liability (asset)	<u>2,405</u>	<u>6,234</u>
	<u>\$ 23,031</u>	<u>26,555</u>
Administrative expenses	<u>\$ 23,031</u>	<u>26,555</u>
Actual return on assets	<u>\$ 10,163</u>	<u>5,598</u>

5) Actuarial gains and losses recognized in other comprehensive income

The Group's actuarial gains and losses recognized in other comprehensive income were as follows:

	<u>2017</u>	<u>2016</u>
Cumulative amount at January 1	\$ (129,832)	(60,660)
Recognized during the period	<u>5,134</u>	<u>(69,172)</u>
Cumulative amount at December 31	<u>\$ (124,698)</u>	<u>(129,832)</u>

(Continued)

6) Actuarial assumptions

The principal actuarial assumptions at the reporting date were as follow:

	December 31, 2017	December 31, 2016
Discount rate	1.375%	1.375%
Future salary increases	2.00%	2.00%

Actuarial assumptions in deciding cost of defined benefit plans:

	2017	2016
Discount rate at December 31	1.375%	1.875%
Future salary increases	2.00%	2.00%

The expected allocation payment to be made by the Group to the defined benefit plans for the one-year period after the reporting date is \$52,291 thousands.

The weighted average duration of the defined benefit plan is 14.75 years.

7) Sensitivity analysis

If the actuarial assumptions had changed, the impact on present value of defined benefit obligation shall be as follows:

	<u>The impact on defined benefit obligation</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2017		
Discount rate (Change 0.25%)	(26,883)	27,922
Future salary increase (Change 0.25%)	26,898	(26,038)

	<u>The impact on defined benefit obligation</u>	
	<u>Increase 0.25%</u>	<u>Decrease 0.25%</u>
December 31, 2016		
Discount rate (Change 0.25%)	(28,549)	29,708
Future salary increase (Change 0.25%)	28,661	(27,693)

The sensitivity analysis above is based on the static risk structure of discount rate against the constant status of other assumed factors. However, the changes in assumptions are linked in practice. The calculation methodology of sensitivity analysis is the same as the net defined benefit obligations of the balance sheet.

(ii) Employee Promotions Deposits plans

The Group was obligated to pay present employees and retired employees fixed preferential interest rate for their deposits in conformity with "Rules Employee Preferential Deposit for Retired Employees for COTA commercial Bank". If the Group's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 "Employee Benefits" upon the employees' retirement.

	December 31, 2017	December 31, 2016
Present value of defined benefit obligation	<u>\$ 59,778</u>	<u>60,990</u>

(Continued)

6. Financial Status

1) Expenses recognized in profit or loss

As of December 31, 2017 and 2016, the Group's expenses recognized in profit or loss were \$10,321 thousands and \$17,366 thousands, respectively.

2) Actuarial assumptions

	<u>2017</u>	<u>2016</u>
Discount rate	4.00%	4.00%
Interest rate of Employee Promotions Deposits plans	8.870%	8.870%
Return on funds deposited	2.00%	2.00%
Account balance annual decline rate	1.00%	1.00%
Chance of future changes in the system of Employee Promotions Deposits plans	50.00%	50.00%

3) Defined contribution plans

The Group allocates 6% of each employee's monthly wages to the labor pension personal account at the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. Under this defined contribution plan, the Group allocates a fixed amount to the Bureau of Labor Insurance without additional legal or constructive obligations.

The pension costs incurred from the contributions to the Bureau of Labor Insurance amounted to 26,135 thousands and 24,905 thousands for the years ended December 31, 2017 and 2016, respectively.

(s) Income tax

(i) The components of income tax in the years 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current tax expense		
Current	\$ 137,034	65,390
Adjustment for prior periods	121	-
	<u>\$ 137,155</u>	<u>65,390</u>
Deferred tax expense		
Origination and reversal of temporary differences	9,399	78,436
Income tax expense excluding tax on sale of discontinued operation	<u>\$ 146,554</u>	<u>143,826</u>

The amount of income tax recognized in other comprehensive income for 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Items that will not be reclassified subsequently to profit or loss:		
Re-measurement from defined benefit plans	<u>\$ 873</u>	<u>(11,759)</u>

Reconciliation of income tax and profit before tax for 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Profit excluding income tax	\$ 1,063,836	858,643
Income tax using the Company's domestic tax rate	180,852	145,969
Tax effect of tax-exempt gains from sale of marketable securities	10	12,493

(Continued)

Changes in unrecognized temporary differences	(3,000)	(20,000)
Other adjustments	(31,685)	(2,941)
Prior years deferred income tax adjustment	-	8,305
Income tax underestimates in prior year	121	-
Undistributed earnings additional tax at 10%	256	-
	<u>\$ 146,554</u>	<u>143,826</u>

(ii) Deferred tax asset and liability

1) Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items:

	December 31, 2017	December 31, 2016	January 1, 2016
Tax effect of deductible Temporary Differences	\$ <u>37,000</u>	<u>40,000</u>	<u>60,000</u>

2) Recognized deferred tax assets and liabilities

Changes in the amount of deferred tax assets and liabilities for 2017 and 2016 were as follows:

	Defined Benefit Plans	Fair Value Losses	Allowance of impairment loss	Other	Total
Deferred Tax Assets:					
Balance at January 1, 2017	\$ 43,665	21,872	106,177	6,109	177,823
Recognized in profit or loss	(6,336)	7,348	(19,146)	3,852	(14,282)
Recognized in other comprehensive income	(873)	-	-	-	(873)
Balance at December 31, 2017	<u>\$ 36,456</u>	<u>29,220</u>	<u>87,031</u>	<u>9,961</u>	<u>162,668</u>
Balance at January 1, 2016	\$ 77,806	21,872	140,822	9,904	250,404
Recognized in profit or loss	(45,900)	-	(34,645)	(3,795)	(84,340)
Recognized in other comprehensive income	11,759	-	-	-	11,759
Balance at December 31, 2016	<u>\$ 43,665</u>	<u>21,872</u>	<u>106,177</u>	<u>6,109</u>	<u>177,823</u>
Deferred Tax Liabilities:					
	Accrued liabilities for land tax revaluation increment	Fair Value Losses	Other	Total	
Balance at January 1, 2017	\$ 83,799	2,983	28,744	115,526	
Recognized in profit or loss	-	(2,983)	(1,901)	(4,884)	
Balance at December 31, 2017	<u>\$ 83,799</u>	<u>-</u>	<u>26,843</u>	<u>110,642</u>	
Balance at January 1, 2016	\$ 83,799	6,328	31,303	121,430	
Recognized in profit or loss	-	(3,345)	(2,559)	(5,904)	
Balance at December 31, 2016	<u>\$ 83,799</u>	<u>2,983</u>	<u>28,744</u>	<u>115,526</u>	

(Continued)

6. Financial Status

3) Examination and Approval

The company's tax returns for the years through 2015 were examined and approved by the Tax Authorities.

4) Information related to the ICA is summarized as follows:

	December 31, 2017	December 31, 2016
Unappropriated earning of 1998 and after	\$ <u>924,107</u>	<u>657,410</u>
Balance of imputation credit	<u>(None)</u>	<u>139,111</u>
	<u>2017</u>	<u>2016</u>
Creditable ratio for earnings distributions to ROC residents	<u>(None)</u>	<u>20.48%</u>

The above stated, information was prepared in accordance with information letter NO.10204562810 issued by the Ministry of Finance of ROC on October 17, 2013.

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

(t) Share capital and other equity accounts

(i) Share capital

As of December 31, 2017 and 2016, the Company's authorized capital consisted of 10,000,000 thousand shares and issued shares worth \$7,625,523 thousands and \$6,370,695 thousands, respectively, with par value of \$10 per share.

Outstanding shares reconciliation as below:

	Common Stock	
(thousand shares)	2017	2016
Balance at January 1	637,069	599,877
Issuance of common stock for cash	100,000	-
Common stock dividend	<u>25,483</u>	<u>37,192</u>
Balance at December 31	<u>762,552</u>	<u>637,069</u>

It was resolved in the stockholders' meeting on June 7, 2016 to increase capital through a capitalization of retained earnings amounting to \$371,924 thousands divided into 37,192 thousands shares. This had been registered and approved by the government authorities on Aug 3, 2016.

It was resolved in the stockholders' meeting on June 16, 2017 to increase capital through a capitalization of retained earning amounting to \$254,828 thousands divided into 25,483 thousands shares. This had been registered and approved by the government authorities on July 28, 2017.

It was resolved in the directors' meeting on March 24, 2017 to increase capital through a cash injection amounting to \$1,000,000 thousands divided into 100,000 thousands shares at \$10 par value. This had been registered and approved by the government authorities on Sep 25, 2017.

(ii) Capital reserve

The components of capital reserve were as follows:

(Continued)

	December 31, 2017	December 31, 2016
Statutory reserve and special reserve transferred in	\$ 742,056	742,056
Additional Paid-in Capital	167,738	156,025
Others	176	153
Dividends not received overtime by shareholders	554	-
	\$ 910,524	898,234

In accordance with the ROC Company Law, capital reserve is exclusively used for offsetting prior losses and conversion to capital, and cannot be distributed as cash dividends. According to the ROC Company Law and relevant securities exchange regulations, a capital increase using capital reserve has to be reserves arisen from issuing stock or donated assets received and cannot exceed 10% of a company's paid-in capital in any year. Capital reserve arisen from long-term equity investments cannot be used to offset prior losses or converted to capital.

(iii) Retained earnings

The Company's article of incorporation stipulate that Company's net earnings should first be used to offset the prior years' deficits, if any, before paying any income taxes. Of the remaining balance, 30% is to be appropriated as legal reserve but the legal reserve has reached its total capital, or the financial business is sound and raise the legal reserve who under the ROC Bank Act, Have unrestricted preceding paragraph; And the operation needs of the Company with the Act provides for the extension or rotation of the special reserve, If there are reserve, together with the unallocated surplus at the beginning of the period, Drafted by the Board of Directors for distribution of profits brought to the shareholders' meeting dispatch shareholders dividends.

According to the Banking Law, cash dividends are limited to 15% of total capital until the balance of statutory reserve reaches the amount of capital.

Exception as otherwise provided by law, cash dividend shall not be lower than 10% of the total dividend distributed. If the cash dividend distributed per share is lower than \$0.1, expect for otherwise resolved by the shareholder's meeting, it is not distributed.

1) Legal reserve

Under the ROC Bank Act, the Company must retain 10% of its earnings as legal reserve until such retention equals the amount of the total capital. According to the amendment of the ROC Bank Act as of January 2012, legal reserve is limited to the extent of 25% of the share capital. In addition, under the ROC Bank Act, the Bank shall retain 30% of its after-tax earnings as the legal reserve before distributing them. Before the amount of legal reserves reaches the amount of the total capital, the maximum amount of distributing earnings in cash shall not exceed 15% of the total capital. The restriction is not applied if the amount of legal reserves equals the amount of the total capital, or if the Bank is in a sound financial condition and when it comply the ROC Bank Act.

2) Special reserve

In accordance with permit NO.1010012865 as issued by the financial supervisory commission on April 6, 2012, a portion of current-period earnings and undistributed prior-period earnings shall be reclassified as a special earnings reserve during earnings distribution. The amount to be reclassified should be equal to the difference between the total net current-period reduction of other shareholders' equity resulting from the first-time adoption of IFRSs and the carrying amount of special earnings reserve as stated above. Similarly, a portion of undistributed prior period earnings shall be reclassified as a special earnings reserve (which does not qualify for earnings distribution) to account for cumulative changes to other shareholders' equity pertaining to prior periods due to the first-time adoption

(Continued)

6. Financial Status

of IFRSs. Amounts of subsequent reversals pertaining to the net reduction of other shareholders' equity shall qualify for additional distributions. The special reserve from this as of December 31, 2017 and 2016 were \$8,100 thousands and \$0, respectively.

In accordance with permit NO.10510001510 as issued by the financial supervisory commission, the bank shall retain 0.5% to 1% of its after-tax earnings as the special reserve before distributing the earning for 2016 to 2018. The special reserve from this as of December 31, 2017 and 2016 were \$3,575 thousands and \$0, respectively.

3) Appropriation of earnings

Earning distribution for 2016 and 2015 was decided via the general meeting of shareholders held on June 16, 2017 and June 7, 2016, respectively. The details were as follows:

	2016		2015	
	Amount per share	Total amount	Amount per share	Total amount
Dividends distributed to ordinary shareholders				
Cash	\$ 0.30	191,121	0.20	119,975
Shares	0.40	254,828	0.62	371,924
Total		<u>\$ 445,949</u>		<u>491,899</u>

4) Other equity accounts

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Others
Balance, January1, 2017	\$ 5	(8,105)	(8,100)
Unrealized losses on available-for-sale financial assets, net of tax:	-	31,313	31,313
Foreign currency translation differences (net of tax):	(222)	-	(222)
Balance, December 31, 2017	<u>\$ (217)</u>	<u>23,208</u>	<u>22,991</u>

	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Others
Balance, January1, 2016	\$ (27)	48,848	48,821
Unrealized losses on available-for-sale financial assets, net of tax:	-	(56,953)	(56,953)
Foreign currency translation differences (net of tax):	32	-	32
Balance, December 31, 2016	<u>\$ 5</u>	<u>(8,105)</u>	<u>(8,100)</u>

(Continued)

(u) Share-based payment

The Board of Directors' meeting on 24 March 2017, the Company decided to award 10,000 thousands new shares of restricted stock to those full-time employees who meet the Company's requirements. The unvested shares are authorized managing director to search specific people to pay at fair value.

As at 31 December 2017, the Group had share-based payment arrangements as follows:

	Equity-settled
	Cash-settled share-based payment plan (reserved for employees to subscribe)
Grant date	2017.7.28
Number of shares granted	4,338 thousands (Note)
Contract term	-
Recipients	full-time employees
Vesting conditions	Immediately vested

Note: The employees already claim un-vesting 5,662 thousands shares before grand date.

1. Determining the fair value of equity instruments granted

The Group used market-based method in measuring the fair value of the share-based payment at the grant date. The measurement inputs were as follows:

	2017
	Cash-settled share-based payment plan (reserved for employees to subscribe)
Fair value at grant date	\$ 12.7
Share price at grant date	\$ 11.77~16.54
Exercise price	\$ 12.7
Expected volatility (%)	8.67 %
Expected life (years)	0.1644
Expected dividend	-
Risk-free interest rate (%)	1.64 %

Expected life is between grant date and pay date. The determination of fair value doesn't include service from the trade and non-market profitability condition.

2. Expense recognized in profit or loss

The Group incurred expenses and liabilities of share-based arrangements in 2017 as follows:

	2017
Expenses resulting from cash-settled share-based payment to employees	\$ 11,713

(Continued)

6. Financial Status

(v) Earnings per share

The basic and diluted earnings per share for 2017 and 2016 were calculated as follows:

	2017	2016
Basic earnings per share:		
Profit of the Company for the year	\$ <u>917,282</u>	<u>714,817</u>
Weighted-average number of ordinary shares at 31 December	<u>689,401</u>	<u>662,552</u>
Basic Earnings per share (in NT dollars)	\$ <u>1.33</u>	<u>1.08</u>
Diluted earnings per share:		
Profit of the Company for the year	\$ <u>917,282</u>	<u>714,817</u>
Weighted-average number of ordinary shares at 31 December	689,401	662,552
Effect of dilutive potential ordinary shares:		
Employee bonuses	<u>6,069</u>	<u>5,077</u>
Weighted-average number of ordinary shares (diluted) at 31 December	<u>695,470</u>	<u>667,629</u>
Diluted earnings per share (in NT dollar)	\$ <u>1.32</u>	<u>1.07</u>

(w) Net interest income

	2017	2016
Interest income		
Discount and loans	\$ 3,047,018	2,966,611
Due from Banks	145,616	143,483
Short-term bills and bonds	115,803	124,665
Other	<u>189,127</u>	<u>179,746</u>
Sub-total	<u>3,497,564</u>	<u>3,414,505</u>
Interest expense		
Deposit	904,402	956,898
Due to Central Bank and banks and call loans to banks	1,845	3,258
Financial bonds	84,125	51,575
Other	<u>955</u>	<u>775</u>
Sub-total	<u>991,327</u>	<u>1,012,506</u>
	\$ <u>2,506,237</u>	<u>2,401,999</u>

(x) Service fee income

	2017	2016
Service fee income		
Insurance agency service fee	\$ 139,450	243,922
Fund service fee	31,086	19,994
Guarantee service fee	28,465	19,868
Consumer financial center service fee	14,759	14,523

(Continued)

Remittance service fee	11,850	11,730
Trust service fee	12,984	12,686
Other	27,183	27,079
Sub-total	265,777	349,802
Service fee expense	18,980	31,188
	\$ 246,797	318,614

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

	2017	2016
Realized gains (losses)		
Convertible bonds	\$ 22,400	31,028
Listed and OTC securities	(3,607)	(37,344)
Beneficiary certificates	6,353	7,726
Subtotal	25,146	1,410
Valuation gains (losses)		
Convertible bonds	(1,192)	(5,894)
Listed and OTC securities	870	(2,183)
Beneficiary certificates	1,224	(909)
Derivative financial instruments	5,622	(34,886)
Subtotal	6,524	(43,872)
Dividend and interest income	3,911	84
	\$ 35,581	(42,378)

(z) Other non-interest income, net

	2017	2016
Dividend income from financial assets measured at cost	\$ 6,588	6,424
Rental income	20,046	19,216
Net losses on disposal of premises and equipments	(1,886)	(2,975)
Others	2,927	5,133
	\$ 27,675	27,798

(aa) Bad debt expenses and provision for guarantee reserve

	2017	2016
Discounts and loans	\$ (97,517)	5,611
Receivables	2,403	2,509
Guarantee reserve	2,000	4,000
	\$ (93,114)	12,120

(Continued)

6. Financial Status

(ab) Employee compensation and directors' and supervisors' remuneration

In accordance with the Articles of incorporation, the Company should contribute no less than 6% of the profit as employee compensation and less than 2% as directors' and supervisors' remuneration when there is profit for the year. However, if the Company has accumulated deficits, the profit should be reserved to offset the deficit. The amount of remuneration of each director and supervisor and of compensation for employees entitled to receive the abovementioned employee compensation is approved by the board of directors. The recipients of shares and cash may include the employees of the Company's affiliated companies who meet certain conditions.

For the year ended December 31, 2017 and 2016, the Company estimated its employee remuneration amounting to \$69,305 thousands and \$55,644 thousands, and directors' and supervisors' remuneration amounting to \$23,102 thousands and \$18,548 thousands, respectively. The estimated amounts mentioned above are calculated based on the net profit before tax, excluding the remuneration to employees, directors and supervisors of each period, multiplied by the percentage of remuneration to employees, directors and supervisors as specified in the Group's articles. These remunerations were expensed under operating expenses during 2017 and 2016. The amounts, as stated in the consolidated financial statements, are identical to those of the actual distributions for 2017 and 2016.

(ac) Employee benefits expenses

	2017	2016
Salary expenses	\$ 1,133,859	1,079,280
Insurance expenses	80,365	77,241
Retirement expenses	49,166	51,460
Other employee benefits	90,363	89,555
	<u>\$ 1,353,753</u>	<u>1,297,536</u>

(ad) Depreciation and amortization expenses

	2017	2016
Depreciation of Property and equipment	\$ 44,808	42,175
Depreciation of investment Property	1,033	1,033
Amortization of intangible assets	3,611	2,299
	<u>\$ 49,452</u>	<u>45,507</u>

(ae) Other general and administrative expenses

	2017	2016
Taxes and fees	\$ 211,239	213,985
Insurance expense	59,233	51,563
Rental expense	57,974	54,994
Occupational group membership fee	28,451	21,761
Advertising and printing expense	29,522	32,027
Security fees	21,238	20,251
Other	139,334	125,651
	<u>\$ 546,991</u>	<u>520,232</u>

(Continued)

(af) Financial instruments

(i) Fair value Measurement

1) Overview

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financial instruments are measured at fair value on initial recognition, which, in most of the situations, refers to the entry price. Subsequent valuation is on the fair value basis except for financial instruments measured at amortized cost. The optimal evidence in deciding fair value is the exit price of active market. Considering those financial instruments without active market, the Group adopts valuation techniques or references of the exit price offered by Bloomberg, Reuters and counterparties in fair value valuation.

2) Definition of three - level 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: the products traded in the market are homogeneous, willing parties are available anytime in the market, and price information is available for the public. The Company and its subsidiaries' investments in listed and TPEX securities, beneficiary certificates, popular Taiwan central government bonds and derivative financial instruments which had the quoted price in an active market are classified to Level 1.

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 Company and its subsidiaries' investments in government bonds not in popular demand, corporate bonds, financial debentures, convertible bonds and majority derivative instruments are classified to Level 2.

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).

3) Fair value hierarchy

a) The table below analyses recurring financial instruments carried at fair value

Fair value measurement for financial instruments	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Non-Derivative Financial Instruments				
Assets:				
Financial assets measured at fair value through profit or loss				
Held for trading financial assets - net				
Investment in stocks	\$ 36,572	36,572	-	-
Investment in bonds	737,036	4,500	732,536	-
Others	40,000	40,000	-	-
Available-for-sale financial assets - net				
Investment in bonds	3,736,500	3,736,500	-	-

(Continued)

6. Financial Status

Derivative Financial Instruments				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 6,392	-	6,392	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	16	-	16	-
December 31, 2016				
Fair value measurement for financial instruments	Total	Level 1	Level 2	Level 3
Non-Derivative Financial Instruments				
Assets:				
Financial assets measured at fair value through profit or loss				
Held for trading financial assets - net				
Investment in stocks	\$ 76,185	76,185	-	-
Investment in bonds	1,469,828	-	1,469,828	-
Others	248,776	248,776	-	-
Available-for-sale financial assets - net				
Investment in bonds	6,375,802	6,375,802	-	-
Derivative Financial Instruments				
Assets:				
Financial assets measured at fair value through profit or loss	\$ 1,245	-	1,245	-
Liabilities:				
Financial liabilities measured at fair value through profit or loss	491	-	491	-

b) Valuation techniques of financial assets and liabilities measured by fair value

If there is a quoted price in an active market for non-derivative financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, the quoted price is regarded as its fair value. Financial instruments with public market prices (except for stocks and depositary receipt) such as government bonds use the latest trade price TPEX Electronic Bond Trading System (EBTS) or reference theory price under as fair value. Foreign currency bonds use latest trade price as fair value. If no quoted price referable by, the fair value is estimated valuation techniques of which the assumptions and estimates are in conformity with those information (available for the Group) used in pricing the financial instruments. Financial derivative instruments with active market price use market value as fair value. When there is no active market price, valuation model is mainly adopted in evaluation. Derivative instruments — non-option use discounted cash flow method; Derivative instruments —options mainly use Black —Scholes Model in evaluation.

c) Fair value adjustment

i) Limitations to Evaluation Models and uncertain inputs

The outputs of evaluation models are estimated, while the model is possibly incapable of reflecting all relevant factors relating to financial instruments held by the group. In such circumstances, the estimates are hence adjusted according to suitable extra parameters such as model risk or liquidity risk. The Group's operation process of financial instrument evaluation policy considers the adjustment to evaluation is adequate and necessary so as to fairly present the financial instrument's fair value in statement of financial position. In the evaluation process, the pricing information and parameters are deliberately assessed and modulated in light of market situation.

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ii) Credit risk valuation adjustment

Credit risk valuation adjustment can be classified into Credit value adjustments and Debit value adjustments. The adjustments reflect the possibility of delayed repayment by the counterparty or the Group in fair value and of failure in transaction's entire market value collected (paid) by the Group.

(ii) Methods and assumptions used by the Group for fair value evaluation of financial instruments were as follows:

- 1) Fair value of short-term financial instruments is estimated by their book value on the balance sheet date. Since these instruments have short maturities, the book value is adopted as a reasonable basis in estimating the fair value. The method is applied to cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under reverse repurchase agreements, receivables, current tax assets, other financial assets, deposits from Central Bank and other banks, due to Central Bank and other banks, securities sold under repurchase agreements, payables, current tax liabilities, remittances, and other financial liabilities.
 - 2) If there is a quoted price in an active market for the financial asset, including financial instruments measured at fair value through profit or loss, available for sale, held to maturity financial assets, and hedging derivative financial instruments, the quoted price is regarded as its fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates, hypotheses and discount rates for valuation refer to quoted prices, from financial institutions, of financial instruments having substantially the same terms and characteristics, including the credit quality of debtors, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made. Fair value of debt investments without an active market accounted for under other financial assets is determined by the methods described above, and recorded in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Bank's" at amortized cost. Fair value for an equity investment is determined based on either the price calculated using a valuation technique or its book value.
 - 3) Loans and deposits are both classified as interest bearing financial assets; therefore, the book value of financial assets is equivalent to their fair value. The net book value of the nonaccrual account, after deducting provision for credit loss, is adopted as the fair value.
 - 4) The book values of the Group's financial assets carried at cost and financial liabilities measured at amortized cost are similar to their fair values.
 - 5) Financial Bonds Payable: It refers to the financial bonds issued by the Company. Their coupon rates are almost equal to the market interest rate, so it is reasonable to using the discounted present values of the expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.
 - 6) Except those with quoted price in an active market, the fair values of the other financial instruments are attained by valuation techniques or quoted prices from countered parties. The fair value calculated using valuation techniques can refer to the present fair values of financial instruments with similar conditions and characteristics, the discounted cash flow method or other valuation techniques, including the modular valuation method of which the calculated values are computed using attainable market information (such as the commercial paper fixing rates of Reuters.)
- (iii) For the year ended December 31, 2017 and 2016, unrealized gains due to the estimated change of fair value recognized by the Group were \$4,931 thousands and \$(40,780) thousands, respectively. For the year ended December 31, 2017 and 2016, there were no transfers from one level to another.

(Continued)

6. Financial Status

(ag) Financial risk information

(i) Overview

The main risks that the Bank faced and the management strategies are as follows:

1) Management of capital adequacy ratio

The Group risk management considers the Bank as a continuous operation and is being based on the best practice of Basel III, to develop a complete risk management structure and capital adequacy management to ensure the Bank fulfills the minimum capital requirements and enable to bear pressure of capital shock.

2) Credit risk management

Credit strategy includes returns and risk diversification. The asset portfolio includes qualified retail bonds, corporate credit and mortgages. It is also distinguished based on the level of client risk to control the acceptable range of the overall credit risk. The Bank also made use of the risk transfer in credit guarantee fund to strengthen the collateral of small-and-medium enterprises, reduce breach of contract risk and accomplish benefits of risk capital at the same time. To effectively maintain the asset quality and risk return, the Bank has improved its credit investigation and review procedures. It has also managed its collateral and strengthened the development use of risk management instruments and credit risk management schemes.

3) Liquidity risk and market risk management

Assets and liabilities committee is responsible of the liquidity, security and profitability of assets and liabilities. The committee not only conducts regular assessment on the duration and the maturity analysis of assets and liabilities but also set limit structure and the related liquidity limits to control index, adjust capital gap in order to conform with the objective of risk appetite. Profitability is strengthened through the optimization of assets and liabilities structure. Market risk management includes investment in trading book and banking book. To prevent financial instruments from suffering from excessive fluctuations in market price, management measures and restrictions on investment are set, sensitivity index on market risk factors.

4) Operational risk management

In order to integrate risk management culture with employees, the Group not only restricts employees by undertaking regulations, discipline and incentive and penalty measures, but also adopts standard operating procedures and internal control systems to enhance capability of information systems control and the timeliness and accuracy of information on risk management. Risk is controlled and reviewed regularly through the risk appetite, key risk indicator and warning system of risk events for early planning to improve measures.

(ii) Organizational structure of risk management

The organizational structure of risk management includes BOD, Risk Committee, Risk Management Committee, Assets and Liabilities Committee, Loan Review Committee, Department of Risk Management, Department of Audit, Department of Law, Credit Management Headquarter and Department of Credit Analysis and Appraisal and other management departments, with BOD as the ultimate responsible unit. The risk committee is subordinated to the BOD, and the member of risk committee is elected from the board of directors, who monitor risks on behalf of the BOD. The BOD and risk committee will delegate authorities to the general manager and committees in setting management rules as regards to risk identification, measurement, disclosure, report, monitoring and offsetting. The Group also established independent risk management department to monitor the credit risk, market risk, operational risk and liquidity risk. At the same time, the Group promotes the framework of new Basel capital agreement that identifies measures, discloses and reports management system and proposes each risk management report for management decision on a regular basis.

(Continued)

Also, the law department is set up to carry out law risk management and procedures on review of legal compliance. The business units, which are subordinated to the general manager, ensure the coordination of each risk management policies; establish appropriate internal control and standard operating procedures and support the risk management project based on the business needs. The audit department is responsible for auditing the compliance of all internal and external business norms in all units, as well as the implementation of internal control in practice.

(iii) Credit risk

1) The source and definition of credit risk

Credit risk is the risk of financial loss to the Group if a creditor or counterparty fails to meet its contractual obligations. Credit risk management should be adopted in all operating activities that involved in credit risk, including loans, investment in banking book, financial derivatives, transactions in repurchase agreement and other operating activities in relation to the credit risk.

2) Management policy of credit risk

The Group has set standard control procedures on credit risk identification, measurement, and information on disclosures and reports to conduct rational identification, measurement, disclosures and effective control on credit risk. The Group also deliberates the fluctuation in economics and adjusts the credit risk structure accordingly to control the risks in credit portfolio within the risk appetite. These procedures include criteria for targeted client, credit investigation, credit approval or rejection, approval on exceptions, risk control and management, credit review, management on non-performing loans and requests and control of all related documents and information. Based on the risk management policies, the illustration of management process carried out by the competent authority is as follows:

a) Credit investigation

With respect to the criteria for targeted client, the Group should ask for all necessary documents from the clients in order to filter client accurately and control credit portfolio within the acceptable range.

b) Credit approval

Cases that have passed through the credit investigation are reviewed by the credit authority of each level. The credit authorities authorize credits in compliance with the credit limitation structure and authorization policies of the Group. The credit limitation structure and authorization policies of the Group are not only based on banking act and the rules stipulated by the authority, concerning the credit extended to same person or same affiliated enterprises/groups, stock collateral, industry and country, but also based on the professionalism of the credit authorities and the quality of asset control. The amounts of credit authorized are reviewed by the credit authorities on occasional basis.

c) Post-lending loan review mechanisms

The corporate banking business of the Group strengthens the tracking control of the financial and business conditions on creditors, carry out risk assessment report of credit asset portfolio on a regular basis, set-up warning system and adjust business development strategy to cope with economic conditions and changes in asset quality through the account management scheme and regular reassessment system. As regards to delinquent loans, the Group uses concentration management method, together with information systems and analysis model to conduct regular review to improve the performance on overdue to expedite the collection of nonperforming loans.

d) Development, application and verification of risk information system

The Group has actively developed quantify risk assessment model as a reference for credit decision. The Bank develops the credit rating model based on products and characteristics of counterparties and use the results

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6. Financial Status

from the model to filter new clients, risk pricing and limit management, to analyze and develop overdue management strategy on overdue loans based on client behavior pattern. To improve the effectiveness of credit investigation and ensure the consistency with the investigation standards, the Company built a credit investigation operating system, which not only strengthen the effectiveness of the Group operation and information system, but also improve the development of model for quantifying risk. The Group conducts verification on the risk assessment model on a regular basis and evaluates the effectiveness of the model and made necessary amendments.

The methods of risk measurement in the main operating departments are as follows:

i) Loans (including credit commitment and guarantee)

Classifications in credit assets and level of credit quality are illustrated as follows:

1. Classification of credit assets

The credit assets are classified into 5 categories, where the normal credit assets are classified as Category 1. After nonperforming credit assets are evaluated by assessing the status of the loan collaterals and the length of time overdue, they are classified under Category 2 assets that require special mention. Assets that are substandard are classified as Category 3, assets that are doubtful are classified as Category 4 and assets for which incurred a loss are classified as Category 5. The Bank has set “Regulations Governing the Procedures to Evaluate Credit Assets, Set Aside Loss Reserves and Handle Non-performing Credit, Non-accrual Loans and Bad Debts” as management for doubtful loans and as a basis for handling overdue loans.

2. Level of credit quality

The level of credit quality is set to accommodate the characteristics and the scale of operating business, and conduct risk management.

ii) Due from the Central Banks and call loans to banks, investments in debt instruments and financial derivatives instruments

The Group always assesses the credit situation of the counterparty before entering into a transaction. The counterparty's rating and information on financial condition from domestic and international credit rating agency are being considered and different credit risk limits are set. The credit risk limits are approved by the BOD or the authority level. Overall, most of the investments are above investment grade ratings.

3) Mitigation or hedging of risk

Based on the risk assessment of the credit counterparty and transactions, the Bank requires high liquidity and sufficient collateral or transfer of credit guarantee and guarantee association (for instance, Small and Medium Enterprise Credit Guarantee Fund) to strengthen the guarantee of loans. In order to avoid and control risks, the Group not only requires the provision of necessary legal documents, but also conducts field survey on the status of collateral and determines whether to reassess the value of collateral and demand for additional collateral or adjust the credit amount. The lists of management conduct by the Group are as follows:

- a) Setting the value of collateral and management measures, including types of acceptable collateral, valuation process, frequency of revaluation, market assessment and law enforcement procedures.
- b) The liquidity and value of collateral and the degree of law enforcement should be assessed by independent party.
- c) The selection of appraise or appraisal institute, the requirements of appraisal and its related fees should be in compliance with the internal management procedures.

(Continued)

d) Transfer of collateral, authority setting and other insurance procedures should be completed before being appropriated, and the amount set, insured and other legal aspects should be complied with the Group regulations.

4) Maximum exposure 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 and the maximum exposure of credit risk of off-balance sheet financial instruments were as follows:

	December 31, 2017	December 31, 2016
Irrevocable loan commitment	\$ 18,494,208	19,796,661
Credit card commitment	20,168	21,094
Undrawn letters of credit	8,350	9,000
Guarantees	238,900	49,617
	\$ 18,761,626	19,876,372

The Group believes the adopting stringent selection processes and conducting regular review afterwards are the reasons why they can continuously control and minimize the credit risk exposure of their off-balance sheet items.

5) Concentrations of credit risk

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentration can arise in a bank's assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credit, loan and deposits, call loan to banks, investment, receivables and derivatives. The Bank maintains a diversified portfolio, limits its exposure on a continuous basis. The Group's most significant concentrations of credit risk are summarized as follows:

a) By Industry

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Private enterprise	\$ 34,133,120	29.26	29,808,474	26.16
Public Sector	1,574,546	1.35	3,005,586	2.64
Non-profit organization	17,655	0.02	64,089	0.06
Individuals	80,626,756	69.11	80,892,103	70.99
Financial institutions	309,015	0.26	175,635	0.15
	\$ 116,661,092	100.00	113,945,887	100.00

b) By Area

Not applicable since the Group conducts its business domestically.

(Continued)

6. Financial Status

c) By Collateral

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Non-secured	\$ 17,318,412	14.85	19,659,273	17.25
Securities				
Stock	115,241	0.10	135,741	0.12
Bond	191,960	0.16	155,518	0.14
Real estate	72,893,572	62.48	69,061,011	60.61
Chattel	20,609,516	17.67	19,766,569	17.35
Notes receivables	34,111	0.03	49,283	0.04
Guarantee	5,373,335	4.60	4,997,479	4.38
Other	124,945	0.11	121,013	0.11
	\$ 116,661,092	100.00	113,945,887	100.00

6) Credit quality and overdue impairment loss of financial assets of the Bank

Part of the financial assets, such as cash and cash equivalent, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, bills and bonds purchased under resell agreement, guarantee deposits paid and operation guarantee deposits and settlement funds are considered of minimum credit risk due to the good credit ratings of the trade counterparties.

Expect for the abovementioned items, the credit quality analysis of the rest of the financial assets are as follows:

a) Credit Quality Analysis of Discounts and Loans as well as Receivables

December 31, 2017	Neither past due nor impaired (A)	Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowance (D)		Net (A)+(B)+(C)-(D)
					With objective evidence	Without objective evidence	
Receivables							
- Credit card	142,278	376	6,656	149,310	6,906	27,541	114,863
- Revenue	8,699	-	-	8,699	-	-	8,699
- Interest	217,809	-	3,511	221,320	301	1,011	220,008
- Promissory fare	627	-	-	627	-	-	627
- Others	37,222	-	9,331	46,553	3,063	2,514	40,976
Subtotal	406,635	376	19,498	426,509	10,270	31,066	385,173
Discounts and loans	114,987,453	301,369	1,372,270	116,661,092	938,582	920,082	114,802,428
Off balance sheet items							
- Guarantee	2,283,789	-	49,059	2,332,848	-	-	2,332,848
- Letter of credit	146,809	-	-	146,809	-	-	146,809

(Continued)

December 31, 2016	Neither past due nor impaired (A)	Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowance(D)		Net (A)+(B)+(C)-(D)
					With objective evidence	Without objective evidence	
Receivables							
- Credit card	143,286	1,410	416	145,112	95	33,255	111,762
- Revenue	563	-	-	563	-	-	563
- Interest	227,121	-	2,931	230,052	322	1,211	228,519
- Promissory fare	1,584	-	-	1,584	-	-	1,584
- Others	50,069	-	6,925	56,994	2,901	2,794	51,299
Subtotal	422,623	1,410	10,272	434,305	3,318	37,260	393,727
Discounts and loans	112,521,821	478,082	945,984	113,945,887	778,726	1,183,921	111,983,240
Off balance sheet items							
- Guarantee	2,399,323	-	30,556	2,429,879	-	-	2,429,879
- Letter of credit	162,939	-	-	162,939	-	-	162,939

b) Client-credit-quality-based Credit Quality Analysis on None Past Due and None impaired Discount and Loans

December 31, 2017	Neither past due nor impaired				
	Very Good	Good	Normal	None	Total
Consumers' financing					
- Automobile	7,950,633	10,515,222	4,639	157,764	18,628,258
- Real estate	1,266,177	13,008,518	5,720,690	3,110,809	23,106,194
- Credit loans	71,558	5,603,289	413,779	51,041	6,139,667
- Deposit collateral	-	900	260	91,960	93,120
- Land as collateral	38,860	12,544,745	3,004,187	1,401,588	16,989,380
- Other secured	88,163	10,295,748	3,344,989	2,396,983	16,125,883
- Other non-secured	1,236	245,903	88,360	49,954	385,453
Corporate financing					
- Government	-	-	-	1,574,547	1,574,547
- PP&E as collateral	2,417,894	10,474,057	3,003,208	800,224	16,695,383
- Insurance policies as collateral	-	8,218	1,104	2,754	12,076
- Other secured	586,355	2,857,376	2,234,995	978,645	6,657,371
- Other non-secured	560,765	4,308,058	1,500,725	2,210,573	8,580,121
Total	12,981,641	69,862,034	19,316,936	12,826,842	114,987,453

(Continued)

6. Financial Status

December 31, 2016	Neither past due nor impaired				
	Very Good	Good	Normal	None	Total
Consumers' financing					
- Automobile	8,290,515	9,340,336	266	173,539	17,804,656
- Real estate	1,179,442	12,854,178	5,816,497	2,672,995	22,523,112
- Credit loans	4,713,391	1,731,529	20,700	53,940	6,519,560
- Deposit collateral	-	703	5,184	61,435	67,322
- Land as collateral	-	13,112,389	3,591,405	853,434	17,557,228
- Other secured	73,879	9,713,670	3,269,144	1,696,261	14,752,954
- Other non-secured	4,129	302,656	114,573	127,541	548,899
Corporate financing					
- Government	-	-	-	3,005,586	3,005,586
- PP&E as collateral	2,148,864	9,304,950	2,399,763	491,474	14,345,051
- Insurance policies as collateral	-	15,727	4,253	3,667	23,647
- Other secured	630,306	3,045,606	2,200,383	330,675	6,206,970
- Other non-secured	922,464	4,620,972	2,090,351	1,533,050	9,166,837
Total	17,962,990	64,042,716	19,512,519	11,003,597	112,521,822

c) Credit Quality Analysis of Security Investments

December 31, 2017	Neither past due nor impaired				Past due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment Allowance (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Normal	Total (A)					
Available for sale									
- Bond	3,736,500	-	-	3,736,500	-	-	3,736,500	-	3,736,500
Held-to-maturity									
- Bond	18,761,940	-	-	18,761,940	-	-	18,761,940	-	18,761,940
- Other	1,000	-	-	1,000	-	-	1,000	-	1,000
Other									
- Equity	129,892	-	-	129,892	-	-	129,892	-	129,892
- Bond	-	-	-	-	-	59,696	59,696	7,537	52,159

December 31, 2016	Neither past due nor impaired				Past due Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment Allowance (D)	Net (A)+(B)+(C)-(D)
	Very Good	Good	Normal	Total (A)					
Available for sale									
- Bond	6,375,802	-	-	6,375,802	-	-	6,375,802	-	6,375,802
Held-to-maturity									
- Bond	3,524,120	-	-	3,524,120	-	-	3,524,120	-	3,524,120
- Other	1,000	-	-	1,000	-	-	1,000	-	1,000
Other									
- Equity	129,892	-	-	129,892	-	-	129,892	-	129,892
- Bond	-	-	-	-	-	64,558	64,558	64,558	56,408

(Continued)

7) Ageing 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 occurs yet. According to the internal credit risk assets impairment evaluation guideline, unless there are other objective evidences shown the potential loss, a less than 90-day past due loan is typically not to be treated as impairment.

The aging analysis on past due but not impaired financial assets is as follows:

	December 31, 2017			December 31, 2016		
	Overdue within 1 month	Overdue Between 1 and 3 months	Total	Overdue within 1 month	Overdue Between 1 and 3 months	Total
Receivables						
- credit card	252	124	376	969	441	1,410
Discounts and loans						
Consumers financing						
- automobile	-	9,435	9,435	-	9,323	9,323
- real estate	2,029	33,168	35,197	-	58,409	58,409
- credit loans	150	29,558	29,708	56,777	35,100	91,877
- land as collateral	-	740	740	-	8,944	8,944
- other secured	3,610	11,611	15,221	-	24,106	24,106
- other non-secured	-	1,162	1,162	346	1,084	1,430
Corporate financing						
- real estate	-	171,433	171,433	-	201,441	201,441
- Insurance policies as collateral	-	6,985	6,985	-	78	78
- other secured	-	15,981	15,981	-	21,514	21,514
- other non-secured	-	15,507	15,507	-	60,960	60,960
Total	6,041	295,704	301,745	58,092	421,400	479,492

8) Analysis of Impairment for Financial Assets

Analysis of impairment for discounts, loans and receivables and accumulated impairment allowance are as follows:

Item		Discounts and loans (Note1)	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual impairment	434,557	238,959
	Collective impairment	937,713	707,025
Without objective evidence of impairment	Collective impairment	115,288,822	112,999,903
Total		116,661,092	113,945,887

Item		Allowance for doubtful accounts	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual impairment	185,768	215,769
	Collective impairment	752,814	562,957
Without objective evidence of impairment	Collective impairment	920,082	1,183,921
Total		1,858,664	1,962,647

(Continued)

6. Financial Status

Item		Receivables (Note2)	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual impairment	9,771	7,346
	Collective impairment	9,727	2,926
Without objective evidence of impairment	Collective impairment	407,011	424,033
Total		426,509	434,305

Item		Allowance for doubtful accounts	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual impairment	542	392
	Collective impairment	9,728	2,926
Without objective evidence of impairment	Collective impairment	31,066	37,260
Total		41,336	40,578

Note 1: Total loan is the original amount without the adjustments of premium or discounts and the allowance for doubtful accounts.

Note 2: Total receivable is the original amount without the adjustments of the allowance for doubtful accounts.

Note 3: As of December 31, 2017 and 2016, tax refund receivables not applied to IAS 39 were \$0 and \$11,003 thousands, respectively.

9) Management of Foreclosed Collateral

Foreclosed collateral is recorded at cost, using lower-at-cost or market approach as at balance sheet date. If collateral is not disposed of within the statutory period, the Bank should apply for an extension of the disposal period and increase its provision for possible losses if necessary.

10) Disclosures required by the Regulations Governing the Preparation of Financial Report by Public Banks

a) Asset quality of nonperforming loan and overdue credits

Period Items		December 31, 2017				
		Nonperforming Loans (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking	Secured	91,349	25,391,978	0.36%	396,573	434.13%
	Unsecured	37,980	10,642,358	0.36%	186,676	491.51%
Consumer Banking	Mortgage loans (Note 4)	62,039	19,247,166	0.32%	297,037	478.79%
	Cash card	-	638	-%	12	- %
	Small-scale credit loans (Note 5)	42,828	10,139,866	0.42%	185,280	432.61%
	Other (Note 6)	Secured	42,908	51,127,171	0.08%	784,492
Unsecured		2,993	111,915	2.67%	8,594	287.14%
Total loans		280,097	116,661,092	0.24%	1,858,664	663.58%
		Overdue Receivables	Receivables	Delinquency Ratio	Allowance for Possible Losses	Coverage Ratio
Credit cards		472	149,310	0.32%	34,447	7,086.23%
Accounts receivable factoring without recourse (Note 7)		-	-	- %	-	- %

(Continued)

Period Items		December 31, 2016					
		Nonperforming Loans (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	
Corporate Banking	Secured	45,052	21,015,785	0.21%	359,559	798.10%	
	Unsecured	19,973	12,306,116	0.16%	192,644	964.52%	
Consumer Banking	Mortgage loans (Note 4)	78,735	19,396,661	0.41%	328,657	417.42%	
	Cash card	-	1,053	- %	22	- %	
	Small-scale credit loans (Note 5)	50,657	10,950,138	0.46%	222,473	439.18%	
	Other (Note 6)	Secured	51,638	49,789,336	0.10%	837,935	1,622.71%
		Unsecured	6,747	486,798	1.39%	21,357	316.54%
Total loans		252,802	113,945,887	0.22%	1,962,647	776.36%	
		Overdue Receivables	Receivables	Delinquency Ratio	Allowance for Possible Losses	Coverage Ratio	
Credit cards		416	145,112	0.29%	33,350	8,016.83%	
Accounts receivable factoring without recourse (Note 7)		-	-	- %	-	- %	

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming / Non-accrued Loans."

Nonperforming credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: For loan business: NPL ratio= Nonperforming loans ÷ Total loan balance.

For credit card business: Delinquency ratio= Overdue credit card receivables ÷ Credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Overdue credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower or the spouse or the minor children of the borrower.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factoring without recourse are reported as overdue receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

b) Exemption of nonperforming loans and overdue receivables

	December 31, 2017		December 31, 2016	
	Amount exempted from reporting as non-performing loans	Amount exempted from reporting as overdue account receivable	Amount exempted from reporting as non-performing loans	Amount exempted from reporting as overdue account receivable
Amounts of executed contracts on negotiated debts not reported (Note 1)	11,999	2,512	10,230	3,693
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	288,213	2,389	186,304	2,684
Total	300,212	4,901	196,534	6,377

Note 1: The disclosure of excluded NPLs and excluded overdue receivables resulting from debt negotiations and loan agreements is based on the Banking Bureau letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau letter dated September 15, 2008 (Ref. No. 09700318940).

(Continued)

6. Financial Status

c) Concentration of credit extens

December 31, 2017			
Rank (Note 1)	Business Groups' Standard Industrial Classification and Symbol (Note 2)	Total Amount of Credit Endorsement or Other Transactions (note 3)	Percentage of the Bank's Equity (%)
1	n Company- Real Estate	811,840	7.89
2	i Company -Private Pulp, Paper and Paper Products Manufacturing	387,835	3.77
3	k Company -Private Food Products Manufacturing	364,400	3.54
4	m Company -Real Estate	351,000	3.41
5	o Company -Real Estate	287,600	2.80
6	g Company -Corporation Group-Financial Service	253,678	2.47
7	l Company -Electronic Parts and Components Manufacturing	245,800	2.39
8	D Company -Transportation	233,123	2.27
9	p Company -Other Manufacturing	232,217	2.26
10	g Company -Real Estate	221,000	2.15

December 31, 2016			
Rank (Note 1)	Business Groups' Standard Industrial Classification and Symbol (Note 2)	Total Amount of Credit Endorsement or Other Transactions (note 3)	Percentage of the Bank's Equity (%)
1	n Company- Real Estate	811,840	9.53
2	E Company -Real Estate	422,430	4.96
3	D Company -Transportation	359,471	4.22
4	l Company -Civil Engineering	356,499	4.19
5	m Company -Real Estate	350,000	4.11
6	i Company -Private Pulp, Paper and Paper Products Manufacturing	324,000	3.80
7	k Company -Private Food Products Manufacturing	279,157	3.28
8	l Company -Electronic Parts and Components Manufacturing	243,400	2.86
9	g Company -Corporation Group-Financial Service	231,448	2.72
10	h Company -Private Service	229,175	2.69

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 : Consists of loans (foreign currency imports financing, foreign currency export financing, notes discounted, customer overdrafts, short-term unsecured loans, short-term secured loans, receivables from securities lending, medium-term unsecured loans, medium-term secured loans, long-term unsecured loans, long-term secured loans, non-performing loans), foreign currency long positions, accounts receivable-factoring discount, bankers' acceptance receivable, guarantees receivable.

(Continued)

(iv) Liquidity risk

1) Causes and definition of liquidity risk

The Group's definition for liquidity risk is the risk the Group encounter difficulty in meeting the obligations with its financial liabilities and cause the losses, for example, a saving account cancels its saving ahead of time, the ways or conditions to call loans to banks drop, creditors' credit become worsen and cause an exceptional condition, financial instruments cannot be financed and etc. The situation mentioned above may reduce the money for lending, trading, and investing activities. In some extreme situation, the lack of liquidity may decrease the level of balance sheet, sale assets, or the possibility of could not fulfill the promise of loan. Liquidity risk is containing in the inherent risk of bank operating, and could be affected by every industry individual or whole market's incident, which are included but not only as: credit event, consolidation or merger and acquisition, system shock, and natural disaster.

2) Management policy of liquidity risk

The Group carries out its management procedures respectively and is monitored by their respective independent risk management department. The procedures include:

- a) Daily capital movement: monitoring future cash flows in order to ensure all requirements are fulfilled.
- b) Maintain adequate stock of liquid assets to buffer unexpected events that may interrupt cash flows.
- c) Monitor liquidity ratios of balance sheets in accordance with the internal management purposes and external regulatory requirements.

The monitoring and reporting procedures are based on the estimation of future 1 month, 1-3 months, 3-6 months, 6-12 months and one-year capital flow. The estimation of future cash flow is based on the contract maturity date of financial liabilities and the estimated collection date of financial assets. The Bank monitors the interest rate risk, structure of assets and liabilities, and the liquidity conditions based on the related report and indices in ALCO and set alert and limits or MAT based on the key indices.

Related information is regularly provided to the risk management committee and BOD.

3) To manage liquidity risk of financial assets hold and non-derivative financial liabilities maturity analysis

a) To manage liquidity risk of financial assets held

The financial assets include cash and assets that are of highly liquid and high quality for the purpose of paying liabilities and capital movement during emergency. The assets held for managing liquidity risk include cash and cash equivalents, due from the central bank and call loans to banks, financial assets at FVTPL, discounts and loans, available-for-sale financial assets, and held-to-maturity financial assets.

b) Maturity analysis for non-derivative financial liabilities

The Group's non-derivative financial liabilities are based both on the maturing of assets and liabilities, and the corresponding interest rate and controlled gaps that do not match. As the transaction conditions are uncertain and are of different types, the maturity of assets and liabilities usually does not match. This may result in gains or losses. The following table shows the maturity analysis of liquidity based on liabilities.

(Continued)

6. Financial Status

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Due to the Central Bank and call Loans from Banks	13,367	25,670	-	38,800	-	77,837
Payables	365,341	263,709	118,541	53,698	24,458	825,747
Current tax liabilities	-	-	82,787	-	-	82,787
Deposit and remittance	14,635,905	17,949,656	23,448,795	45,928,546	42,372,588	144,335,490
Financial debentures	-	1,500,000	-	-	1,800,000	3,300,000

December 31, 2016	0~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year	Total
Due to the Central Bank and call Loans from Banks	-	25,670	-	38,800	-	64,470
Payables	531,904	72,604	91,064	12,538	24,540	732,650
Deposit and remittance	12,509,194	18,746,835	21,418,195	44,397,844	42,663,973	139,736,041
Financial debentures	-	-	-	-	3,300,000	3,300,000

4) The maturity analysis of derivative financial liabilities

The derivative instruments of the Group's possession which are settled by net amount include foreign derivative instruments, such as non-delivery forward contracts, foreign exchange options settled by net amount. After evaluation the Groups concluded that the maturity date is the basic element to comprehend all the derivative financial instruments listed in the consolidated financial statement.

The maturity analysis of derivative financial liabilities settled by net amount is as follows:

	December 31, 2017					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 365 days	Total
Derivative financial liabilities measured at fair value through profit or loss						
- Foreign exchange	\$ 16	-	-	-	-	16

	December 31, 2016					
	0-30 days	31-90 days	91-180 days	181-365 days	Over 365 days	Total
Derivative financial liabilities measured at fair value through profit or loss						
- Foreign exchange	\$ 491	-	-	-	-	491

5) Maturity analysis for off balance sheet items

The table below shows the maturity analysis of the off-balance-sheet items of the Bank based on the remaining days from the consolidated financial statement date to the contract maturity date. For the financial guarantee contracts issued, the maximum amount of the guarantee is listed in the earliest time zone that the guarantee may be executed. The amount disclosed is based on the cash flows of the contracts and thus part of the amount disclosed may not correspond to the amount disclosed in the consolidated financial statement.

(Continued)

December 31, 2017	0~30 days	31~90 days	91~180 days	181~365 days	Over 365 days	Total
Commitment of loans	2,578,825	5,118,749	7,536,474	3,260,160	-	18,494,208
Commitment for letter of credit card	-	128	321	1,094	18,625	20,168
Undrawn letters of credit	-	-	-	8,350	-	8,350
Guarantees	-	38,900	200,000	-	-	238,900

December 31, 2016	0~30 days	31~90 days	91~180 days	181~365 days	Over 365 days	Total
Commitment of loans	2,612,955	5,197,771	7,817,864	4,168,071	-	19,796,661
Commitment for letter of credit card	-	924	2,120	4,270	13,780	21,094
Undrawn letters of credit	-	-	-	9,000	-	9,000
Guarantees	-	28,138	21,000	479	-	49,617

6) The maturity analysis of lease agreement

The lease contracts of the Group are operating lease. Operating lease commitment is the future minimum rental payment under irrevocable operating lease condition.

The maturity analysis of lease agreement is as follows:

December 31, 2017	Less than 1 year	1~5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	44,751	85,082	-	129,833
Operating lease income(Lessor)	19,987	33,687	2,000	55,674

December 31, 2016	Less than 1 year	1~5 year	Over 5 year	Total
Lease commitments				
Operating lease payments (Lessee)	44,180	86,150	3,574	133,904
Operating lease income(Lessor)	20,089	49,781	5,000	74,870

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

a) Maturity analysis of assets and liabilities in New Taiwan Dollars

(in thousands of New Taiwan dollars)

December 31, 2017							
	Total	Amount for each remaining period to maturity					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	\$ 158,279,283	19,914,407	11,146,649	4,000,663	7,510,719	13,768,275	101,938,570
Main capital outflow on maturity	175,951,980	6,387,728	9,578,237	25,269,266	31,290,704	48,720,586	54,705,459
Gap	(17,672,697)	13,526,679	1,568,412	(21,268,603)	(23,779,985)	(34,952,311)	47,233,111

(Continued)

6. Financial Status

(in thousands of New Taiwan dollars)

December 31, 2016							
	Total	Amount for each remaining period to maturity					
		0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	\$ 152,413,756	16,269,565	9,841,123	7,584,071	10,449,131	21,082,658	87,187,208
Main capital outflow on maturity	171,112,011	5,983,794	9,029,244	23,417,030	29,432,943	48,466,89	54,782,102
Gap	(18,698,255)	10,285,771	811,879	(15,832,959)	(18,983,812)	(27,384,240)	32,405,106

b) Maturity analysis of assets and liabilities in US Dollars

(in thousands of US dollars)

December 31, 2017						
	Total	Amount for each remaining period to maturity				
		0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	\$ 98,654	27,631	41,961	2,704	3,439	22,919
Main capital outflow on maturity	98,654	79,580	6,705	4,188	7,744	437
Gap	-	(51,949)	35,256	(1,484)	(4,305)	22,482

(in thousands of US dollars)

December 31, 2016						
	Total	Amount for each remaining period to maturity				
		0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Main capital inflow on maturity	\$ 93,750	34,533	35,186	6,177	3,000	14,854
Main capital outflow on maturity	93,750	69,604	18,597	2,199	3,350	-
Gap	-	(35,071)	16,589	3,978	(350)	14,854

(v) Financial risk information

1) Market risk

Market risk means the changes in market price that lead to the fair value and future cash flow volatility risk of the held financial instruments, even if it is not included in the financial statements. The risk factors usually refer to interest rate, exchange rate, equity investment and price. When the factors change, the Group's net operating income and the value of investment portfolio will have volatility risk.

The main market risks of the Group and its subsidiary are interest rate risk, exchange rate risk and equity investment risk. The main position of interest rate risk includes transactions with conditions, bonds, securities investments, interest rate swaps and so on. The main position of exchange risks includes forward exchange, foreign exchange swaps, and FX options and so on. The main position of equity investment risk includes stocks, funds, and stock market index futures and so on.

(Continued)

The major objective of the risk management of the Group is to control the risk under the scope approved by the board of directors by using effective management methods to utilize resource and create maximum economic profit. For major risks, the Group had 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.

Market risk is the risk that the Group's 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 Group divides market risk exposures into 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.

Sensitivity analysis for exchange rate risk, interest rate risk and equity security price risk is as follows:

December 31, 2017			
Main risk	Range	Amount influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD, EUR/NTD increase 3%, other currency/NTD decrease 5%	-	21,944
Exchange rate risk	USD/NTD, EUR/NTD decrease 3%, other currency/NTD increase 5%	-	(21,944)
Interest rate risk	Interest rate curve rise 100BPS	-	(71,934)
Interest rate risk	Interest rate curve fall 100BPS	-	71,934
Price of equity stock risk	Price of equity stock rise 15%	-	12,161
Price of equity stock risk	Price of equity stock fall 15%	-	(12,161)

December 31, 2016			
Main risk	Range	Amount influence	
		Equity	Gain or loss
Exchange rate risk	USD/NTD, EUR/NTD increase 3%, other currency/NTD decrease 5%	-	2,357
Exchange rate risk	USD/NTD, EUR/NTD decrease 3%, other currency/NTD increase 5%	-	(2,357)
Interest rate risk	Interest rate curve rise 100BPS	-	(194,270)
Interest rate risk	Interest rate curve fall 100BPS	-	194,270
Price of equity stock risk	Price of equity stock rise 15%	-	48,744
Price of equity stock risk	Price of equity stock fall 15%	-	(48,744)

(Continued)

6. Financial Status

2) Exchange rate risk concentration information

All held foreign financial assets and liabilities are classified by currencies and represented using the carrying amounts as follows:

December 31, 2017	USD	NZD	ZAR	AUD	CAD	Total
Foreign currency Financial assets						
Cash and cash equivalents	23,769	-	-	-	-	23,769
Due from Central Bank and call loans to bank	999,126	968	445	198,844	960	1,200,343
Available-for-sale financial assets	171,551	-	-	-	-	171,551
Discounts and loans	1,026,573	-	-	-	-	1,026,573
Receivables	29,745	-	-	341	-	30,086
Others	1,474,413	70,789	154,104	288,620	17,753	2,005,679
Total assets	3,725,177	71,757	154,549	487,805	18,713	4,458,001
Foreign currency Financial liabilities						
Deposits and remittances	2,020,775	70,585	64,026	211,016	18,574	2,384,976
Payables	11,148	82	195	10,552	35	22,012
Others	1,680,200	1,090	90,328	266,237	104	2,037,959
Total liabilities	3,712,123	71,757	154,549	487,805	18,713	4,444,947

Note: As of December 31, 2017, USD/TWD: 29.8480; NZD/TWD: 21.2010; ZAR/NTD: 2.4191; AUD/NTD: 23.2635; CAD/NTD: 23.7795.

December 31, 2016	USD	EUR	JPY	AUD	CNY	Total
Foreign currency Financial assets						
Cash and cash equivalents	30,072	7,860	21,749	-	10,567	70,248
Due from Central Bank and call loans to bank	1,620,758	34,096	32,083	1,717	2,190	1,690,844
Discounts and loans	680,367	15,349	-	-	-	695,716
Receivables	513,476	15,286	-	183,906	78,413	791,081
Others	830,991	17,959	2,101	176,426	14,230	1,041,707
Total assets	3,675,664	90,550	55,933	362,049	105,400	4,289,596
Foreign currency Financial liabilities						
Deposits and remittances	1,409,539	59,238	73,883	188,583	94,735	1,825,978
Payables	756,560	15,271	-	239	6,050	778,120
Others	662,306	17,959	1,660	176,426	5,192	863,543
Total liabilities	2,828,405	92,468	75,543	365,248	105,977	3,467,641

Note: As of December 31, 2016, USD/TWD: 32.279; EUR/TWD: 33.9285; JPY/TWD: 0.2757; AUD/TWD: 23.3087; CNY/TWD: 4.6445.

(Continued)

3) Disclosure required by the Regulations Governing the Preparation of Financial Reports by Public Banks.

a) The analysis table of interest rate sensitivity in New Taiwan Dollars

December 31, 2017

(in thousands of New Taiwan dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 116,337,615	5,092,077	1,387,938	28,831,348	151,648,978
Interest-rate-sensitive liabilities	27,841,929	74,515,917	37,013,834	3,218,425	142,590,105
Interest rate sensitivity gap	88,495,686	(69,423,840)	(35,625,896)	25,612,923	9,058,873
Net worth					10,291,053
Ratio of interest-rate-sensitive assets to liabilities (%)					106.35
Ratio of interest rate sensitivity gap to net worth (%)					88.03

December 31, 2016

(in thousands of New Taiwan dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 108,294,948	4,545,373	2,132,810	30,531,372	145,504,503
Interest-rate-sensitive liabilities	26,027,615	70,470,024	37,207,420	4,810,093	138,515,152
Interest rate sensitivity gap	82,267,333	(65,924,651)	(35,074,610)	25,721,279	6,989,351
Net worth					8,517,250
Ratio of interest-rate-sensitive assets to liabilities (%)					105.05
Ratio of interest rate sensitivity gap to net worth (%)					82.06

Note 1: The above amount included only new Taiwan dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

Note 3: Interest rate sensitivity gap=Interest-rate-sensitivity assets – Interest-rate-sensitivity liabilities.

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets /Interest-rate-sensitivity liabilities.



(Continued)

6. Financial Status

b) The analysis table of interest rate sensitivity in US Dollars

December 31, 2017

(in thousands of US dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 44,562	2,697	3,437	22,919	73,615
Interest-rate-sensitive liabilities	55,645	4,178	7,729	-	67,552
Interest rate sensitivity gap	(11,083)	(1,481)	(4,292)	22,919	6,063
Net worth					437
Ratio of interest-rate-sensitive assets to liabilities (%)					108.98
Ratio of interest rate sensitivity gap to net worth (%)					1,387.41

December 31, 2016

(in thousands of US dollars)

Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 57,859	1,173	3,000	14,854	76,886
Interest-rate-sensitive liabilities	37,762	2,195	3,346	-	43,303
Interest rate sensitivity gap	20,097	(1,022)	(346)	14,854	33,583
Net worth					313
Ratio of interest-rate-sensitive assets to liabilities (%)					177.55
Ratio of interest rate sensitivity gap to net worth (%)					10,729.39

Note 1: The above amount included only US dollar amounts held by the Bank, and excluded contingent assets and contingent liabilities.

Note 2: Interest rate sensitivity assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues and costs affected by interest rate changes.

Note 3: Interest rate sensitivity gap=Interest-rate-sensitivity assets – Interest-rate-sensitivity liabilities.

Note 4: Ratio of interest-rate-sensitivity assets to liabilities=Interest-rate-sensitivity assets /Interest-rate -sensitivity liabilities.

(ah) Capital management

(i) Introduction

In accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC, regular calculation and preparation of related reports and report to the authorities for review are required in order to perform financial disclosures and conduct internal capital adequacy management. In accordance with the operation plans and budget targets, also considering the Group’s development strategy, capital adequacy, liabilities ratios, and increased of return on equity.

(ii) Regulatory capital

Based on the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC, self-owned capital is classified into Tier 1 capital and Tier 2 capital:

1) Tier 1 capital: includes common equity and other Tier 1 capital.

a) Common equity: Common equity includes common stock, capital surplus (excluding premium on preference shares issuance), accumulated surplus and equity adjustments, less the following items:

(Continued)

intangible assets (including goodwill), unamortized loss on disposal of non-performing loans, major investments, deferred tax assets, deferred pension costs and the items originally deducted from Tier 1 capital and Tier 2 capital.

b) Other Tier 1 capital including non-cumulative perpetual preferred stock and non-cumulative perpetual subordinated debts.

2) Tier 2 capital: includes cumulative perpetual preferred stock, cumulative perpetual subordinated debts, revaluation appreciation, convertible debt, operational provisions and loan-loss reserves

(iii) Capital adequacy ratio:

Item		Year	December 31, 2017	December 31, 2016
Eligible Capital	Common stock capital		9,950,751	8,163,589
	Other tier 1 capital		-	-
	Tier 2 Capital		3,112,248	3,379,440
	Eligible capital		13,062,999	11,543,029
Risk-weighted Assets	Credit risk	Standardized approach	98,167,383	97,220,080
		Internal-rating-based approach	-	-
		Secularization	-	-
	Operational risk	Basic indicator approach	5,118,685	4,992,342
		Standardized approach / Alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	4,918,013	9,524,884
		Internal model approach	-	-
Total Risk-weighted assets			108,204,081	111,737,306
Capital adequacy ratio			12.07%	10.33%
Ratio of common stock equity to risk-weighted assets (%)			9.20%	7.31%
Ratio of tier 1 capital to risk-weighted assets (%)			9.20%	7.31%
Leverage Ratio (%)			5.51%	4.65%

Note 1: Eligible capital, risk-weighted assets and risk exposure are calculated under the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks."

Note 2: Formulas used were as follows:

- 1) Eligible capital = Common equity capital + Other tier 1 capital + Tier 2 capital
- 2) Risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 5) Ratio of tier 1 capital to risk-weighted assets = (Common equity capital + other tier 1 capital) ÷ Risk-weighted assets.
- 6) Leverage = Tier 1 capital ÷ Exposure measurement.

(Continued)

6. Financial Status

(7) Related-party transactions:

(a) Relations parties of Name and Relationship

Relations parties of Name	Relationship
Other	Director, supervisors, managers of the Company and their relatives and spouse.

(b) Significant transactions with related parties

(i) Loans

December 31, 2017							
Type	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan classification		Collateral	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Non-performing loans		
Consumer loans for employees	2	\$ 1,024	141	141	-	None	None
Private housing mortgage loan	3	9,585	4,876	4,876	-	Real estate	None
Other loans	14	74,998	56,599	56,599	-	Real estate/Farmland/ Auto mobile	None

December 31, 2016							
Type	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan classification		Collateral	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Non-performing loans		
Consumer loans for employees	4	\$ 1,691	1,106	1,106	-	None	None
Private housing mortgage loan	6	11,610	10,913	10,913	-	Real estate	None
Other loans	16	240,965	176,686	176,686	-	None/ Real estate/ Farmland/ Building land	"

Loans for related parties are 61,616 thousands and 188,723 thousands on December 31, 2017 and 2016, and the ratio of it to total loan is 0.05% and 0.17%, respectively. Interest income from related parties is 1,034 thousands and 1,004 thousands for 2017 and 2016, and the ratio of it to total interest income is 0.03% and 0.02%, respectively. The range for related parties' loan interest rate is 1.60%~2.75% and 1.60%~2.96% for 2017 and 2016, respectively.

Loans for main management are 1,970 thousands and 2,500 thousands on December 31, 2017 and 2016, and the ratio of it to total loan is the same as 0.002%. Interest income from main management is 32 thousands and 43 thousands for 2017 and 2016, and the ratio of it to total interest income is the same as 0.001%. The range for related parties' loan interest rate is the same as 1.60%.

(Continued)

(ii) Deposits

Name of related parties	December 31, 2017		
	Ending Balance	%	The range of interest rate
The sum of separate accounts balances related parties' is lower than 1% of total deposits.	\$ 208,297	0.14	0.08~1.29

Name of related parties	December 31, 2016		
	Ending Balance	%	The range of interest rate
The sum of separate accounts balances related parties' is lower than 1% of total deposits.	\$ 339,993	0.24	0.08~1.34

Interest resulting from such deposits was \$3,910 thousands and \$4,509 thousands for 2017 and 2016. The range for employee demand savings deposits interest rate was approximately 8.87%.

(c) Compensation information for main management

	2017	2016
Salary and other short-term employee benefits	\$ 52,573	51,641
Post-employment benefits	509	545
Termination benefits	-	-
Other long-term employee benefits	-	-
Share-based payment	290	-
	\$ 53,372	52,186

(8) Pledged assets:

Government bonds provided and deposited as trust compensation and placed as deposits in courts please refer to note 6(h).

(9) Significant commitments and contingencies:

	December 31, 2017	December 31, 2016
Collections received	\$ 10,016,346	10,088,704
Handled several guarantees	2,332,848	2,429,879
Entrusted with the sale of travelers checks	3,332	8,533
Letter of credit	146,809	162,939
Undrawn loan commitments	18,761,626	19,876,372

(10) Losses Due to Major Disasters: None

(Continued)

6. Financial Status

(11) Subsequent Events:

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, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Group’s current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized on December 31, 2017, the deferred tax assets and deferred tax liabilities would increase by \$28,706 and \$4,737 thousands, respectively.

(12) Other:

(a) Personnel expenses, depreciation, and amortization for the years ended December 31, 2017 and 2016, were summarized as follows:

Functional Kind	2017			2016		
	Operating Costs	Operating Expenses	Total	Operating Costs	Operating Expenses	Total
Personnel Expenses:						
Salaries	-	1,133,859	1,133,859	-	1,079,280	1,079,280
Labor and health insurance	-	80,365	80,365	-	77,241	77,241
Pension	-	49,166	49,166	-	51,460	51,460
Other personnel expenses	-	90,363	90,363	-	89,555	89,555
Depreciation expenses	-	45,841	45,841	-	43,208	43,208
Amortization expenses	-	3,611	3,611	-	2,299	2,299

The Group had 1,141 and 1,121 employees, respectively, as of December 31, 2017 and 2016.

(b) Balance sheet and trust property under the Group’s trust accounts are disclosed as follows:

Trust Balance Sheets

December 31, 2017

Trust Assets		Trust Liabilities	
Cash in bank	\$ 217,343	Trust capital - money	\$ 4,429,504
Investment in mutual fund	4,212,161	Trust capital - PP&E	203,010
Land	203,010		
Total trust assets	\$ 4,632,514	Total trust liabilities	\$ 4,632,514

December 31, 2016

Trust Assets		Trust Liabilities	
Cash in bank	\$ 118,074	Trust capital - money	\$ 4,554,022
Investment in mutual fund	4,435,948	Trust capital - PP&E	3,696
Land	3,696		
Total trust assets	\$ 4,557,718	Total trust liabilities	\$ 4,557,718

(Continued)

**Trust Property list of trust account
December 31, 2017**

Investment Items	Amount
Cash in bank	\$ 217,343
Investment in mutual fund	4,212,161
Land	203,010
	<u>\$ 4,632,514</u>

December 31, 2016

Investment Items	Amount
Cash in bank	\$ 118,074
Investment in mutual fund	4,435,948
Land	3,696
	<u>\$ 4,557,718</u>

**Trust Income Statement
December 31, 2017**

Investment Items	Amount
Trust Income	
Interest income	\$ 78
Trust Expense	
Management fees	(1,079)
Income loss before income taxes	(1,001)
Income tax expense	-
Net loss	<u>\$ (1,001)</u>

December 31, 2016

Investment Items	Amount
Trust Income	
Interest income	\$ 38
Trust Expense	
Management fees	(692)
Income loss before income taxes	(654)
Income tax expense	-
Net loss	<u>\$ (654)</u>

(c) Profitability:

Unit: %

Items		December 31, 2017	December 31, 2016
Return on assets ratio	Before income tax	0.68	0.57
	After income tax	0.59	0.48
Return on equity ratio	Before income tax	11.31	10.37
	After income tax	9.75	8.64
Net Income ratio		31.40	26.15

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.

(Continued)

6. Financial Status

(13) Other disclosures:

(a) Information on significant transactions:

- (i) Individual securities acquired or disposed of with accumulated amount exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (ii) Acquisition of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (iii) Disposal of individual real estate with amount exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (iv) Service charge discounts on transactions with related parties in an aggregate amount of NT\$5 million or more: None
- (v) Receivables from related parties with amounts exceeding the lower of NT\$300 million or 10% of the capital stock: None
- (vi) Information on NPL disposal transaction: None
- (vii) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None
- (viii) Business relationships and significant intercompany transactions:

(In Thousands of New Taiwan Dollars)

No	Transaction Company	Counter-party	Nature of Relationship (Note 2)	2017 Description of Transactions			
				Financial Statement Account	Transaction Amount	Transaction Item	Percentage of Consolidated Revenue/Assets
0	COTA Commercial Bank	COTA Bank Insurance Brokers	1	Service fees	44,539	Same as regular transaction	1.52%
1	COTA Bank Insurance Brokers	COTA Commercial Bank	2	Commission expenses	44,539	Same as regular transaction	1.52%

No	Transaction Company	Counter-party	Nature of Relationship (Note 2)	2016 Description of Transactions			
				Financial Statement Account	Transaction Amount	Transaction Item	Percentage of Consolidated Revenue/Assets
0	COTA Commercial Bank	COTA Bank Insurance Brokers	1	Service fees	165,688	Same as regular transaction	6.06%
1	COTA Bank Insurance Brokers	COTA Commercial Bank	2	Commission expenses	165,688	Same as regular transaction	6.06%
0	COTA Commercial Bank	COTA Bank Insurance Brokers	1	Receivables	15,123	Same as regular transaction	0.01%
1	COTA Bank Insurance Brokers	COTA Commercial Bank	2	Accrued Expenses	15,123	Same as regular transaction	0.01%

- (ix) Other significant transactions that may have substantial influence upon the decisions made by financial report users: None

(Continued)

(b) Information on investees:

The following is the information on investees for the years ended December 31, 2017 (excluding information on investees in Mainland China):

(In Thousands of New Taiwan Dollars)

Names of investee company	Location	Main business scope	Shareholding ratio	Carrying value	Gain (Loss) recognized during the period	Aggregate shareholding of the Bank and its subsidiaries				
						No. of shares	No. of pro-forma shares	Total		Remark
								Number of shares	Shareholding ratio	
COTA Bank Insurance Brokers Co., Ltd.	Taiwan	Financial Service	- %	-	5,634	-	-	-	- %	-

(c) Information on investment in mainland China: None**(14) Segment information:**

(a) The Group has three segments need to be disclosed (consumers' financing, branches, and others). Each department provides different services and products, and managed separately based on their diverse techniques and marketing tactic. The higher level managements of the Group review each department's internal management report every quarter. The information of asset and income disclose by segments all follow the significant accounting policies stated above.

(b) The operation businesses of the segments which need to be disclosed were as follow:

2017	Consumers' financing	Branches	Others	Subtotal	Elimination	Total
Revenue						
Net interest income	\$ 1,164,719	969,282	372,236	2,506,237	-	2,506,237
Net service income	11,869	141,041	93,887	246,797	-	246,797
Other income-net	-	52	273,749	273,801	(105,917)	167,884
Income between segments	(378,258)	433,489	(55,231)	-	-	-
Total	798,330	1,543,864	684,641	3,026,835	(105,917)	2,920,918
Expenses						
Bad debt	82,115	113,396	(288,625)	(93,114)	-	(93,114)
Operating expenses	320,436	802,253	818,500	1,941,189	9,007	1,950,196
Total	402,551	915,649	529,875	1,848,075	9,007	1,857,082
Income before tax	\$ 395,779	628,215	154,766	1,178,760	(114,924)	1,063,836
December 31, 2017						
Assets	\$ 34,805,811	80,188,252	45,604,831	160,598,894	(979,027)	159,619,867
Liabilities	\$ 34,410,033	79,546,984	36,357,325	150,314,342	(985,528)	149,328,814

(Continued)

6. Financial Status

2016	Consumers' financing	Branches	Others	Subtotal	Elimination	Total
Revenue						
Net interest income	\$ 1,168,462	840,842	392,695	2,401,999	-	2,401,999
Net service income	11,646	43,550	263,418	318,614	-	318,614
Other income-net	-	199	40,109	40,308	(26,883)	13,425
Income between segments	(395,996)	579,005	(183,009)	-	-	-
Total	784,112	1,463,596	513,213	2,760,921	(26,883)	2,734,038
Expenses						
Bad debt	105,843	141,790	(235,513)	12,120	-	12,120
Operating expenses	323,252	766,052	774,290	1,863,594	(319)	1,863,275
Total	429,095	907,842	538,777	1,875,714	(319)	1,875,395
Income before tax	\$ 355,017	555,754	(25,564)	885,207	(26,564)	858,643
December 31, 2016						
Assets	\$ 34,252,045	78,403,616	40,544,802	153,200,463	(91,686)	153,108,777
Liabilities	\$ 33,897,029	77,847,862	32,898,809	144,643,700	(52,173)	144,591,527

(c) Service segment information

Services	2017	2016
Interest income from discounts and loans	\$ 3,047,018	2,966,611
Other interest income	450,546	447,894
Service income	265,777	349,802
	\$ 3,763,341	3,764,307

(d) Geographic segment information:

The Group's interest income and service fee income are both from the customers in Taiwan. The Group's non-current assets are all located in Taiwan.

(e) Information of major customers:

For the years ended December 31, 2017 and 2016, no individual customer of the Group accounted for 10% or more of the Bank and its subsidiaries' revenue in the statements of income.

7 > Financial Status Analysis, Operation Performance Analysis and Risk Management



7. Financial Status Analysis, Operation Performance Analysis and Risk Management

7-1. Financial Status

Unit: TWD thousand

Item	Year	2017	2016	Difference	
				Amount	%
Total Asset		159,619,867	153,132,089	6,487,778	4.24
Total Liability		149,328,814	144,614,839	4,713,975	3.26
Total Equity		10,291,053	8,517,250	1,773,803	20.83

Remarks: Equity increased was due to Capital Increased by Cash TWD 1 billion in 2017

7-2. Operation Performance

Unit: TWD thousand

Item	Year	2017	2016	Increase/Decrease Amount	Increase/Decrease Ratio (%)
Interest expense		991,356	1,012,682	(21,326)	(2.11)
Non-interest income, net		404,313	289,868	114,445	39.48
Net revenue		2,910,521	2,691,691	218,830	8.13
Bad debt expense		(93,114)	12,120	(105,234)	(868.27)
Operating expense		1,940,954	1,826,369	114,585	6.27
Income before income tax		1,062,681	853,202	209,479	24.55
Net income		917,282	714,817	202,465	28.32

Remarks of Ratio Changes analysis:

1. Net non-interest income decreased by TWD114,445 thousand was due to gain on asset reversal of impairment loss in 2017 TWD162,574 thousand.
2. Bad debt expense decreased was due to the quality increase on assets.

7-3. Cash Flow

7-3-1. Cash Flow Analysis for the Past Year and Remedy for Shortage of Liquidity:

Unit: TWD thousand

Initial Cash Residual (1)	Yearly Operating Cash Flow (2)	Yearly Cash Inflow (3)	Residual Cash Amount (deficiency) (1)+(2)+(3)	Cash Deficiency Contingency Plan	
				Investment Plan	Financial Plan
20,109,400	(15,826,768)	712,218	4,994,850	-	-

Remarks:

1. Cash Flow Analysis

- (1) Operating activities: The net cash outflow from operating activities due primarily to loans, deposits remittances and NCD (Increased by TWD 132 billion in 2017)
- (2) Investing activities: The net cash outflow from investing activities due primarily to purchase or sell property or equipment.
- (3) Financial activities: The net cash outflow from financial activities due primarily to issue bank debentures or cash dividend distribution.

2. Improvement plan on shortage of liquidity: Not applicable as an occurrence of shortage.

7-3-2. Cash Flow Analysis for Coming Year

Unit: TWD thousand

Initial Cash Residual (1)	Estimated Yearly Operating Cash Flow (2)	Estimated Yearly Cash Inflow (3)	Estimated Residual Cash Amount(deficiency) (1)+(2)+(3)	Cash Deficiency Contingency Plan	
				Investment plan	Financial Plan
4,994,850	(811,812)	1,005,941	5,188,979	-	-

Remarks:

The Bank predicts that the net cash outflow from operating activities will be TWD 811,812 thousand in 2018. In addition, the Bank estimates the cash inflow from investment and financial activities will be TWD1,005,941 thousand due to investment adjustment, property and equipment purchase, issuing new common stocks, and cash dividend distribution.

7-4. Impact of Major Capital Expenditures in Recent Year

7-4-1. Utilization of major capital expenditures and sources of Funds: None

7-4-2. Expected potential benefit: None

7-5. Reinvestment Policy, Improvement Plan and Investment Plan in Next Year

7-5-1. Reinvestment Policy

The reinvestment items major in financial business of COTA Bank and the goal of holding long-term earned dividends. Regarding new reinvestment, the authorized unit shall submit proposal to "Asset, Liability and Risk Management Committee" for discussion and then get approval from standing committee of board. The authorized unit shall closely monitor operation and financial condition of invested companies and report to "Asset, Liability and Risk Management Committee" in timely basis to ensure investment performance.

7-5-2. Source of Profit

The cash dividend from reinvest companies:

Taiwan depository and clearing corporation; Taiwan Financial Asset Service Corp.; Taiwan Asset Management Corp.; Sunny Asset Management Corp.

7-5-3. Improvement Plan

Establishment Insurance Agency Department in 2017.5.1, the Bank will merge COTA Bank Insurance Broker Co., Ltd. to the Bank's Insurance Agency Department. The Bank will actively cooperate with major insurance companies to introduce appropriate products to meet customers' needs. The Bank will provide proper training to employees that may help customers to realize their actual demands, to perform the function of the insurance, to bring safety feeling to customers, and to increase the Bank's insurance premium income.

7. Financial Status Analysis, Operation Performance Analysis and Risk Management

7-5-4. Investment Plan in Next Year

The Bank sets its main operation target in banking business, therefore no new reinvestment plan undertaking for coming year.

7-6. Risk Management

7-6-1. Financial Risk Information

7-6-1-1. Credit Risk

Credit Risk Management System

Year 2017

Items	Contents
1. Strategies, Objectives, Policies, and Processes	<p>The Bank's credit risk policies and processes comply with Basel II and supervisory regulations. The Bank also created credit risk guidelines in written form such as the code of credit, the bylaws of credit information, the law of the credit responsibility and accountability, the bylaws of handle collateral, the business strategy and law of financial derivatives and all kinds of operation handbooks. They provide strict standard on loans, monitor credit risk, and manage non-performing loans. At the same time, since the change in economic cycle will affect the quality of the loan portfolio, the Bank will execute credit policies to ensure credit exposures under control.</p> <p>The Bank will consider developing the internal credit scoring system. The system will identify and estimate risks from all credit exposures.</p> <p>The Bank established a framework for managing credit risk. The framework may execute risk analysis and monitor risk process. It also may discover potential risks that the Bank may response adequately. In addition, it may assess the relation between risk and return to ensure the goal of the Bank's business.</p>
2. The Structure, and Organization of the Risk Relevant Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor of credit risk management. The board is responsible for the Bank's business strategies and operation guidelines, and is responsible for reviewing credit risk framework and policies. It also authorizes management to execute credit risk management.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee executes the board's risk polices and reports risk profile to the board.</p> <p>(3) Credit Reviewing Committee: The committee reviews the large amount of loans, specific non-performing loans, and the appointed loans.</p> <p>(4) Risk Management Center: The subcommittee integrates credit risk strategies, designs processes, and introduces credit identification, measurement, monitor, and reporting systems.</p> <p>(5) Other Bank's Units: They should understand credit risks under any circumstances, should deal with the assignment of risk management, and should assist risk management subcommittee in risk monitor.</p> <p>(6) Audit Office: The office should establish audit plan and process, and should review the Bank's credit and investment risks at least once a year.</p>

Items	Contents
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	<p>The Bank adjusts credit risk system to produce enough information according as the change of loan portfolio. The information includes: statistics of pass due loans, evaluation of non-performing loans, and statistics of large amount credit exposure. The board and senior management will receive the information periodically, and will make appropriate business and credit risk decision. In addition, the credit risk measurement to the Bank considers the following factors:</p> <ol style="list-style-type: none"> (1) Loan characteristics, contract contents, and customers' financial conditions (2) The possible effect of the exposures from market change (3) Collateral and guarantee (4) The possible future risk change of the customers or counterparties (5) Besides specific trading risks, measuring loan portfolio risks <p>The Bank gradually establishes internal rating framework and measures and analyzes loan risks through quantitative indexes and qualitative methods.</p>
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	<p>The Bank follows the diversified principal on loans and complies with loan limit regulations such as the same person, the same party, relative corporation, stakeholder, and stocks as collateral for the loan. To avoid credit concentration risk, the Bank reviews and adjusts credit exposures regularly. For controlling the quality of the loan assets and mitigating credit risks, the Bank depends on the credit condition of the borrowers and uses a number of techniques to mitigate the credit risks. For example, the Bank demands collateral and guarantee...etc.</p> <p>The Bank had formulated "The Directions of lending rate pricing". The standard of lending rate considered the market rate, capital cost, operating cost, risk expected loss cost, reasonable profit. For market competition, the customer integral contribution will be the factor of lending pricing.</p> <p>The Bank had formulated "The Directions of the Loan Reviewing Operation" which reviews and follows the cases of the loan and strengthens after-loan management. If the Bank discovers the doubtful loans in the process, it should take necessary measures to protect debt obligations. In order to maintain an effectively monitors hip over credit risk, the Bank had established the indexes of the risk evaluation that regularly monitor the change of them and help to estimate the potential reasons of the future risk occurrence.</p>
5. Approach for calculating the Bank's capital requirement	Standardized approach

Exposure amount after risk mitigation and capital requirement of the standard approach

Dec. 31, 2017

Unit: TWD thousand

Category	Exposure amount after risk mitigation	Capital Requirement
Sovereigns	24,199,036	11,751
Non central government public sector entities	1,640,147	30,343
Banks (multilateral development banks)	2,296,206	63,317
Corporate (Securities firm and insurance companies)	21,371,969	1,878,669
Regulatory retail portfolios	79,180,319	5,827,219
Secured by residential property	18,862,400	1,004,882
Equities investment	0	0
Other assets	2,610,071	264,002
Total	150,080,148	9,080,183

7. Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-1-2. Assets Securitization Risk

Assets Securitization Risk Management System

Year 2017

Items	Contents
1. Strategies and Processes	<p>The Bank does not play the role such originator, service, credit enhance agency, or financial liquidity provider and expects to be an investor. The internal regulations for securitizations concentrate on the investor field. If there is necessary on originator field, it will be created in the future.</p> <p>Not only the Bank obeys article 74-1 of the Banking Act, but also it had formulated some investment limits such as total position limit, underlying instrument limit, and internal authorized limit.</p>
2. The Structure, and Organization of the Risk Relevant Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor for securitization risk management. The board is responsible for the Bank's business strategies, and is responsible for reviewing securitization decisions. It also monitors effective operation for managing framework.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee reviews the guidelines and policies of the securitization, controls indicators, and coordinates assignments relative to risk management.</p> <p>(3) Investment Subcommittee: For strengthening portfolio management and trading quality of the securitization, the subcommittee depends on the market condition to plan investment strategies.</p> <p>(4) Risk Management Center: The subcommittee draws strategies and processes of the securitization, designs and introduces risk identification, measurement, monitor, and reporting system.</p> <p>(5) Audit Office: The office should establish audit plan and process, and should review the Bank's risk management at least once a year.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	<p>The Bank reports the periodic information of the securitization exposures to the senior management. It also disclosures in the annual report and on the website. The principal of the valuation should confirm the criteria of methodology and the fairness of the data. Furthermore, the managing reports should effectively control exposure positions and should provide appropriate measurement results to assist risk management processes.</p>
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	<p>The Bank regularly accesses the effectiveness of the strategies of the hedge positions and reviews the limits of the securitizations investment according to the volatility of the market prices.</p> <p>Both of the strategies and limits will report to Investment Subcommittee and make decision. Mitigations such as collaterals, guarantee, and credit derivatives apply to the standardized approach of the credit risk.</p>
5. Approach for calculating the Bank's capital requirement	<p>Standardized approach</p>

Items	Contents
6. General periodic disclosures including : (1) The purpose of securitization and the types of risks borne and retained by the Bank for re-securitization (2) Other risks associated with securitized assets(e.g. liquidity risk) (3) The different roles played by the Bank Asset securitization and the level of participation in every stage (4) Describe the monitoring procedures adopted for credit risk and market risk exposures associated with asset securitization (5) Risk management policies adopted by the Bank to mitigate credit risks associated with securitization and re-securitization	Not applicable
7. Provide an overall description of the Bank's accounting policies on securitization	Not applicable
8. The name of the external Credit Assessment Institution(ECAI) engaged for asset securitization within the Banking book and the ECAI's involvement in every type of securitized asset	Not applicable
9. Describe any material changes of quantitative information since the last reporting period (e.g. shift of asset balances between the Banking book and the trading book)	Not applicable

Remarks:

Item6-9 only applicable to Originating Banks which there is flow in the external position

The undertaking of securitization: None

The original cost of the investing securitization product over TWD300 million in single deal: None

The holding positions due to credit enhancement purpose as an originator: None

As a credit enhancement agency or liquidating assets agency: None

As a guarantee agency or financial liquidity provider: Non

Assets securitization exposures and capital requirements

Dec. 31, 2017

Unit: TWD thousand

Type of Exposures		Type of Assets	Synthetic		
			Risk Exposures		Capital Requirements
			Purchasing or Holding Securitization		
Non-Originating Bank	Banking Book	-	-	-	
	Trading Book	-	-	-	
	Sub-Total	-	-	-	
Originating Bank	Banking Book	-	-	-	
	Trading Book	-	-	-	
	Sub-Total	-	-	-	
TOTAL		-	-	-	

7. Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-1-3. Operational Risk

Operational Risk Management System

Year 2017

Items	Contents
1. Strategies and Processes	<p>The Bank's operational strategies and processes are restrained the division of labor, employees training, effective control framework, and internal control procedure of each level. In aspect of internal control, the Bank had fully formulated the system of the internal audit, self-audit, law obedience, and business operational rules that may to search on the internal website for employees' real time operation. The Bank reduces operational loss by internal and external audit to monitor and trace the risks. In order to assist all employees executing the processes of the operational risk, Risk Management Center is developing applied implements for managing operational.</p>
2. The Structure and Organization of the Relevant Risk Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor for risk management. The board is responsible for the Bank's business strategies, and is responsible for reviewing significant decisions.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee follows risk management policies and procedures that the board of directors had approved. In addition, the committee is responsible to review the guidelines and policies of the operational risk, controls indicators, and coordinates assignments relative to risk management.</p> <p>(3) Risk Management Center: The subcommittee draws strategies and processes of the operational risk, designs and introduces risk identification, measurement, monitor, and reporting system. Moreover, the subcommittee develops the loss event databases of operational risk, gathers risk information from all Banks' units, and reports to ALM committee and the board of the directors regularly.</p> <p>(4) Headquarters' Units They should totally understand the risk that they are facing. When they codify operational regulations, they should consider operational risk management. They also should assist risk management subcommittee to accomplish all kinds of risk monitor.</p> <p>(5) Other Bank's Units: Everyone should comply with the Bank's regulations and should control operational risk. If risk event occurs, everyone should deal with the event immediately and should report to management.</p> <p>(6) Audit Office: The office should execute auditing processes independently and should provide improvement suggestion timely.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	<p>The Bank had established the operational processes for business practices. The processes have been executed on daily operation management and to reduce the occurrence of the operational risk. The executive circumstance of the internal and external audit, self-audit, and the system of law obedience regularly reports to the board. The Bank adopts Supervisory regulation to classify loss event types and executes reporting system of the loss data of the operational risk and establishes whole bank's loss database of the operational risk. The Bank reports the periodic information of the operational risk to the Asset and Liability Management Committee and The Board of Directors. The Bank conducts the self-assessment of the operational events before the end of May every year, compliance system, internal audit system, and self-inspection system to manage and reduce operational risk.</p>

Items	Contents
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	The Bank hedges and mitigates risks through strengthening internal control system, implementing operational risk monitor, training employees, insurance, and outsourcing. The Bank's emergency center and crisis subcommittee had formulated the strategic manual of the disasters and the contingency measures of the operating crisis to ensure every business that may continue to operate normally when the crisis occurs and to protect significant loss of the Bank.
5. Approach for calculating the Bank's capital requirement	Basic indicator approach

The Operational Risk Capital Charge

Dec. 31, 2017

Unit: TWD thousand

Year	Annual Gross Income	Capital Charge
2015	2,736,068	
2016	2,694,665	
2017	2,759,163	
Total	8,189,896	409,495

7-6-1-4. Market Risk

Market Risk Management System

Year 2017

Items	Contents
1. Strategies and Processes	<p>In order to establish effective market risk management system, the Bank formulated market risk managing standard and other related regulations for the benchmark of the market risk management. To ensure the Bank's market risk under control, the functional responsibility divides into trading and settlement, and will involve in risk control system. The system is responsible for the risk identification, measurement, monitor, and reporting procedure.</p> <p>The strategies of the Bank's market risk are as follows: considering the characteristic of each instrument and market condition, regularly measuring endurable risks, expecting balance of returns and risks, optimizing investment allocation. The purpose of all strategies is to improve performance. On the other hand, the Bank formulated a limit system to effectively control risks and reduce exposures.</p>
2. The Structure and Organization of the Relevant Risk Management Function	<p>(1) The Board of Directors: The Bank's board of directors is the supervisor for risk management. The board is responsible to review market risk management system and market risk strategies, and to ensure the system reflects the Bank's business strategies.</p> <p>(2) Asset, Liability and Risk Management Committee: The committee executes risk management strategies and frameworks that the board of directors had approved. In addition, the committee is responsible to review the principals, strategies, and monitoring indexes of the risk managing system and to coordinate and monitor each risk management relative to matters.</p> <p>(3) Investment Subcommittee: The subcommittee plans investment strategies and makes decision what the positions should be sold or hold.</p>

7. Financial Status Analysis, Operation Performance Analysis and Risk Management

Items	Contents
	<p>(4) Risk Management Center: The subcommittee draws strategies and processes of the market risk management, designs and introduces risk identification, measurement, monitor, and reporting system.</p> <p>(5) Related Units: They execute necessary duties of the risk management such monitoring traders and cooperate with Risk Management Center to finish each item of the risk monitor.</p> <p>(6) Audit Office: The office should establish audit plan and process, and should review the Bank's risk management at least once a year.</p>
3. The Scope and Nature of the Risk Reporting and/or Measurement Systems	Market risk information system should be able to control exposures and provide appropriate risk measurement results. For the purpose of the evaluation, the positions divide into trading book and banking book. The banking book positions evaluate once a month, the trading book positions evaluate on a daily basis. The information about gain/loss and exposures will deliver to management which includes market risk management reporting, derivative financial instruments gain/loss assessment. As close to gain/loss the stop-loss warning of pointers would keep attention to the market changes and take measure to avoid over-limit. Related Units monitor the position of TWD and foreign currency assets, gain/loss and stop-loss alert system for keep the market risk within the limits of the bank strength. In 2015, the Bank will use the PIRS system established by TEJ to pricing Bonds, CBAS, Option to reflect the real market price and compliance with regulations.
4. Policies for Hedging and/or Mitigating Risk and Strategies and Processes for Monitoring the Continuing Effectiveness of Hedges/Mitigations	The Bank's hedging strategy of the financial products include to use spots or derivatives to evade market price risks and to review each risk limit regularly such as trading position limits, traders' position limits, and stop loss limits. If the assessment indicates the risk overloaded, the Bank will transfer risks and reduce exposures. If dealers exceed their position limits, Risk Management Center should inform the facts and procedures to management and report daily until under limits. If dealers exceed their stop loss limits, they are required to execute positions.
5. Approach for calculating the Bank's capital requirement	Standardized approach

The Market Risk Capital Charge

Dec. 31, 2017

Unit: TWD thousand

Risk Category	Capital Charge
Interest Rate Risk	268,291
Equity Position Risk	12,971
Foreign Exchange Risk	112,179
Option Position	0
Total	393,441

7-6-1-5. Liquidity Risk

According to operating cash flow, market movement, and minimum requirement of the liquidity reserves ratio, the Bank diversifies funding resources and maintains funding stability. Short-term investment considers the safety of the underlying assets, marketable on the secondary market, and lower liquidity risk such as NCDs, treasury bonds, corporate bonds, and bank debentures. The Bank takes some steps to manage liquidity, for example, monitoring the structural change of assets and liabilities in each period, editing "The Gapping Report of the TWD Cash Flow" weekly, making the reporting sheets of the risk management every month and reporting to Asset and Liability Management Committee, and transferring and operating funds effectively.

According to "Standards Implementing the Liquidity Coverage Ratio of Banks" promulgated on Dec. 29, 2014 Our bank Liquidity Coverage Ratio (LCR) was 325.02% that achieved the minimum required 90%.

NSFR will be formally implemented since 2018. Our Bank conducted the fourth quarter calculation according to the requirements of the competent authority was 134.82% on 2017, accord with the requirement that its rate must not be less than 100%.

Analysis for Time-to-Maturity of the Bank's TWD Assets and Liabilities as of Dec. 31, 2017

Unit: TWD thousand

	Total	Volumes during the period prior to the due date					
		0~10 Days	11~30 days	31~90 days	91~180 days	181 days~ 1 year	Over 1 year
Major inflows of matured funds	158,279,283	19,914,407	11,146,649	4,000,663	7,510,719	13,768,275	101,938,570
Major outflows of Matured funds	175,951,980	6,387,728	9,578,237	25,269,266	31,290,704	48,720,586	54,705,459
Maturity Gap	(17,672,697)	13,526,679	1,568,412	(21,268,603)	(23,779,985)	(34,952,311)	47,233,111

Analysis for Time-to-Maturity of the Bank's USD Assets and Liabilities as of Dec. 31, 2017

Unit: USD thousand

	Total	Volumes during the period prior to the due date				
		0~30 days	31~90 days	91~180 days	181 days - 1 year	Over 1 year
Major inflows of matured funds	98,654	27,631	41,961	2,704	3,439	22,919
Major outflows of Matured funds	98,654	79,580	6,705	4,188	7,744	437
Maturity Gap	0	(51,949)	35,256	(1,484)	(4,305)	22,482

7. Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-2. Impact of Alterations in Domestic and Foreign Major Polices and Laws on the Bank's Financial Operations and Adopting Measures

7-6-2-1. Impact on Money Laundering Control Act

- Change in Regulations

"Counter-Terrorism Financing Act" was announced and effective on July 27 2016. The revision of "Anti-Money Laundering Law" was announced on December 28, 2016, and effective in 6 months after then. Financial Supervisory Commission amended "Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Banking Sector" and "Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Insurance Sector" which was renamed as "Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Banking Business, Electronic Payment Institutions and Electronic Stored Value Card Issuers" and "Directions Governing Internal Control System of Anti-Money Laundering and Countering Terrorism Financing of Insurance" on Jun 28,2017.

- Impact and Adopting Measures

The bank set up anti-money laundering dedicated unit and is responsible for anti-money laundering and countering terrorism financing to enforce the Bank's operation mechanism. The responsive measures include amending the Bank's "Directions Governing Anti-Money Laundering and Countering Terrorism Financing ", "Directions Governing and operation procedure Anti-Money Laundering and Countering Terrorism Financing of Insurance agency", Customer Due Diligence (CDD) measures, employee training and assisted by system for transaction monitoring and management.

7-6-2-2. Impact on Procedures for reporting the scope of major contingencies by financial institutions and other matters to be observed

- Change in Regulations

Financial Supervisory Commission announced Procedures for reporting the scope of major contingencies by financial institutions and other matters to be observed on Mar. 22, 2017. It includes the major contingencies reporting institution, scope, procedure, addition the check account occurred per bounce check amount exceeding TWD100 million, Financial Holding company or the head office of domestic bank get the information of foreign subsidiaries or branches that descended rating by the local authorities or the audit report mentioned about "not rule out taking counter measures" or "will retain the power of administrative sanctions", and subsumed the reporting mechanism under the financial institution internal control and check system.

- Impact and Adopting Measures

The bank had subsumed the above compliance matters under the financial institution internal control and check system.

7-6-2-3. Amended "Rules Governing Offshore Banking Branches" to enhance the OBU customer identification procedures

- Change in Regulations

In order to enhance OBU customer identification procedures, and prepare to respond the APG mutual evaluation on 2018, referred to methods of customer identification of neighbor finance centre, Singapore, Hong Kong, 40 comments of FATF and outside opinions to amend the rules.

- Impact and Adopting Measures

The bank had accorded to the previous regulations to review the customer identification and the risk level before Dec. 31, 2017.

7. Financial Status Analysis, Operation Performance Analysis and Risk Management

7-6-2-6. Impact on Basel III

- Change in Regulations

Financial Supervisory Commission and Central Bank of the Republic of China promulgated “Standards Implementing the Liquidity Coverage Ratio of Banks” on Dec. 29, 2014.

- Impact and Adopting Measures

The Basel III made a great impact on Asian banks is the strict regulations on liquidity assets. The reason is parts of banks to lack of the high-quality current assets, the operator must also adopt new science and technology or upgrade the internal system to manage the mobility risk and obey the mobility new standard

The Basel III and before inspect institutional of the main difference is a banking to want with the Liquidity Coverage Ratio (LCR) and the net stable funding ratio (NSFR) quantification mobility risk.

(LCR) requires the banks should own high-quality liquidity assets to meet net cash outflow under severe situation within 30 days. The (NSFR) encouragement bank uses more stable funds source and strengthens the tenacity for banking to face long-term pressure and make use of medium and long-term margin strategy, rather than use more short-term assets

The bank's LCR is 325.02% based on January 2018 data which has already passed the minimum requirement of the 90%.

The LCR implements a schedule, each year not get is lower than the following ratio:

	2015	2016	2017	2018	2019
Min LCR (%)	60	70	80	90	100

The (NSFR) formal implementation carry out in 2018, the Bank's trial result is 134.82% based on 4th quarter 2017 date which has already passed the minimum requirement of the 100%.

7-6-3. Impact of Technological and Industrial Changes on the Bank's Financial Operations and Adopting Measures

The Bank had provided e-bank service to reduce cost and enhance business efficiency. Although it brings convenience and cost-down, it still had some risks of the information safety such as program errors, system crashes, or hacker attacks. They will therefore create unpredictable losses and operational risks. To avoid the occurrence of the loss events, the Bank will train employees to recognize the information safety and to deal with emergent events. This will reduce the probability of the risk occurrence. In order to enhance the Bank's assets quality and reduce loan risks, the related loan departments provide industrial research reports without a fix schedule and observe the industrial changes at any time.

7-6-4. Impact on the Bank of Changes in the Bank's Image and Adopting Measures

The Bank holds the spirit of “take resource from society and contribute to community” to take the responsibility of the enterprise citizen. Participating active social welfare activities through founded “COTA Culture and Education Foundation”. Facing keen competition, the Bank still maintains the spirit of “being respectful to customers” to provide the professional financial services to customers. The Bank hopes to maintain long-term stable relationship with customers by clear and professional image and to create a win-win situation between enterprise and clients.

7-6-5. Expected Benefits and Potential Risks of Mergers and Acquisitions and Adopting Measures

Currently, no merger or acquisition plan.

7-6-6. Expected Benefits and Potential Risks of Branches Location Expansion and Adopting Measures

To expand the scale of customer service, increase business efficiency, and create brand awareness and market share, the Bank cautiously evaluates to expand business location every year cause of the business unit might create operating risk and credit risk.

7-6-7. Risk Arising from the Concentration of Business and Adopting Measures

The Bank had formulated risk limit regulations such as the same person, the same party, affiliates and all kind of industries on loan and investment businesses. In addition, the Bank controls concentration of all bank's business lines through information management system. This can diversify risk, keep assets' quality and assured operating moderate.

7-6-8. The Influence and Risk Posed by Changes in Operating Control Rights and Adopting Measures

There have been no changes in operating control.

7-6-9. The Influence and Risk Posed by Mass Shares Transfer of Directors, Supervisors or Major Shareholders with Shares holding over 1% and Adopting Measures: None

7-6-10. Lawsuits: None

7-6-11. Other Significant Risks and Adopting Measures

Other risks such as strategically risk, goodwill risk, and the risk of the obedience of laws, the Bank will adjust the business policy in accordance with the change of the market condition and the modification of the laws to enhance business flexibility and competition.



7-7. Crisis Handling System:

7-7-1. In order to manage crisis handling system, the Bank formulated some related rules, taking measures, and adopting manual of disasters to effectively reduce damage and protect customers' rights. The Bank also established contingent task team to execute contingency solving measures.

7-7-2. In order to rapidly deal with disasters, the Bank established the emergency call and reporting system in the ordinary time. The managers of each unit charges with contact assignment.

7-7-3. In the event of significant and unforeseeable contingencies, the Bank will report the event to competent authority in addition to inform police department or related institution to take emergency remedy approaches.

7-7-4. In the event of natural disasters, the Bank will obey "The operating directions of the averting disasters for financial institutions" and "The operating directions of closed business as disasters occurring for financial institutions" formulated by competent authority. For check cleaning and dishonored check information filing, the Bank will obey "The operating directions of check cleaning and dishonored check information filing for partly office terminate area" formulated by the Taiwan Cleaning House.

7-8. Other Significant Matters: None

8 > Special Notes



8. Special Notes

8-1. Data of Affiliated Company

8-1-1. Organization Chart of Affiliated Company



8-1-2. Profile of Affiliated Company

Unit: TWD thousand

Company name	Established date	Address	Paid-in capital	Major business item
COTA Bank Insurance Broker Co., Ltd.	Apr 16, 2008	3F., No.339, Dazhi Rd., East Dist., Taichung City 401, Taiwan	5,000	Property insurance broker Life insurance broker

8-1-3. Infer Controller and Subsidiary Own the Same Shareholders' Data: None

8-1-4. Data of Affiliated Company's Director and Supervisor

Company name	Title	Name or Represent	Shares	
			Number of shares	Percentage of shareholding (%)
COTA Bank Insurance Broker Co., Ltd.	Chairman	Chan-wen Lin	500,000	100.00
	Director	Yong-Zhi Wang		
	Director	Ying-Che Chang		
	Director	Cai-Xiong Liao		
	Director	Lien-Kui Wang		
	Director	Yao-Ting Li		
	Supervisor	Jun-Chuan Wang		

8-1-5. Business Operation of Affiliated Company

As of Apr.30, 2017

Unit: TWD thousand

Firm's Name	Capital	Asset	Liability	Net Income	Operating Income	Operating Margin	Net Income After Tax	EPS After Tax (dollar)
COTA Bank Insurance Broker Co., Ltd.	5,000	61,962	16,815	45,147	13,030	1,006	818	1.636

8-1-6. Consolidated Financial Statement of Affiliated Company Details Please see consolidated financial statement.

8-1-7. Affiliated Statement: N/A

8-2. Private Placement of Securities: None

8-3. Holdings or Disposal the Stock of COTA Bank by Subsidiaries: None

8-4. Other Matters for Supplementary Explanation: COTA Bank general assumed COTA Bank Insurance Broker Co Ltd on May.1, 2017.

8-5. Pursuant to Item2, Paragraph 2, Article 36 of Security and Exchange Act, the Incidence Exerting Material Influence on Shareholders' Rights or Security Prices: None



* Chronological Highlights

- 2012.02.01 Launched business of regular variable special-purpose money trust funds investing in foreign securities and domestic securities investment trust funds.
- 2012.06.07 Held 2012 shareholder's regular meeting.
- 2012.08.01 Distribution of 2012 cash dividends.
- 2012.08.10 Obtained approval of foreign exchange licenses for branches of Xitun, Dazhi, Nantun, Fengyuan, Zhanghua, Yuanlin, Taipei, Taoyuan, Banciao and Tainan.
- 2012.09.05 Publically announced new shares offering in 2012.
- 2012.09.13 Fengdong Branch moved to Fengshan and renamed Fengshan Branch, Zhongzheng Mini Branch moved to Fengyuan and renamed Fengdong Mini Branch as approved by FSC under doc. no.Chin-Kuan-Yin-He-Tze 10100292650.
- 2012.10.09 Launched business of pre-construction real estate escrow account trust
- 2012.11.01 COTA Bank was conferred "E-payment business Innovation Excellence Award" from FISC mobile banking business.
- 2012.11.15 Launched UnionPay card acquiring in ATMs.
- 2012.12.26 COTA Bank was conferred "Golden Security Award" from Joint Credit Information Center.
- 2013.02.21 Launched business of RMB.
- 2013.03.18 Zhongshan Branch moved, Fengle Branch moved and renamed Daya Branch as approved by FSC under doc. no.Chin-Kuan-Yin-He-Tze 10200065840.
- 2013.04.22 Zhongzheng Mini Branch moved to Fengyuan and renamed Fengdong Mini Branch and reopened for business.
- 2013.05.30 Held 2013 shareholder's regular meeting.
- 2013.06.24 Zhongshan Branch moved to 36, Daming Road, Fengyuan District, Taichung City and reopened for business.
- 2013.07.24 Fengshan Branch grand opening.
- 2013.08.20 Received "Best Awards of Creation" recognized by Financial Information Service Co., Ltd. for domestic USD clearing platform.
- 2013.09.27 Publically announced new shares offering in 2013.
- 2014.03.04 Held 2014 shareholder's extraordinary meeting.
- 2014.04.22 COTA Bank have registered with the IRS and obtained GIINs.
- 2014.05.15 Held 2014 shareholder's regular meeting
- 2014.05.16 Launched Pre-Construction Real Estate Trust
- 2014.05.26 Daya Branch opened
- 2014.07.01 Launched business of Gold Passbook
- 2014.12.17 Obtained approval of foreign exchange licenses for branches of Banking Dept., Chenggong, Xinzhuang, Xinzhu and Fengshan.
- 2014.12.22 COTA Bank was conferred "Golden Security Award" from Joint Credit Information Center.
- 2014.12.29 Held 2014 shareholder's 2rd extraordinary meeting for voting directors.
- 2015.01.08 Mr. Liao Song-Yie and Chuan Cheng Hat Co., Ltd. were elected as managing directors in board of directors of the 7th Session of 1st extraordinary meeting.
- 2015.01.23 Mr. Kun-Hsien Lin, Mr. Kuo-Chao Hsiao and Ying-Che Chang-Corporation Representative of Deng Heng Enterprise Co., Ltd. were elected as managing directors in board of directors, Mr. Liao Sung-Yie was elected as Chairman in board of directors of the 7th Session of 3rd extraordinary meeting.
- 2015.02.07 Legal & Compliance Department founded
- 2015.04.01 Obtained approval of foreign exchange licenses for branches of Guoguang, Linsen, Nanmen, Jinhua and Beitun.
- 2015.04.20 Qiaotou Branch opened
- 2015.04.29 Received "The best performance of creative industries loan" recognized by FSC
- 2015.05.06 Gift cards advance payment trust and dealing trust launched
- 2015.06.10 Held 2015 shareholder's regular meeting.
- 2015.06.13 For celebrating COTA Bank 100 years of history, 'Living in affluence forever - COTA 100' a hiking event held
- 2015.07.01 Mobile banking foreign exchange business approved by CBC Foreign Bureaus

- 2015.07.21 Fengdong Mini-Branch upgraded to Fengdong Branch at the same address as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10400174980.
- 2015.08.27 Publically announced cash capital increase issuance of new shares in 2015.
- 2015.09.01 Trust business online account opened for common customer / wealth management customer launched
- 2015.10.01 Fengdong Mini-Branch upgraded to Fengdong Branch
- 2015.10.24 For celebrating COTA Bank 100 years of history, 'Love connection Hot blood - COTA 100' a blood donation charitable event held at SKM Hui-An Parking lot
- 2015.10.27 Dadu Branch opened
- 2015.11.27 Fengdong Branch moved to Taiping Dist., Taichung and renamed Taiping Branch as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10400282100, which self-executing from 2015.11.27
- 2015.12.01 Electronic Banking Department founded
- 2016.03.29 New revision website launched.
- 2016.04.15 A new function added about applying for credit card on line.
- 2016.04.18 A new function added about account closing with limited amount on line.
- 2016.06.07 Held 2016 shareholder's regular meeting.
- 2016.06.08 The Book Donation Project be initiated from TCCE Foundation and COTA donated TWD 0.5 million.
- 2016.07.27 Publically announced capital increase by earnings in 2016 and cash dividend in 2015.
- 2016.09.08 Longjing Branch opened
- 2016.09.26 Fengdong Branch moved and renamed Taiping Branch and reopened for business.
- 2016.10.28 Provided new currency service that A UD added for FISC domestic clearing platform.
- 2016.11.08 Tianzhong Branch opened
- 2016.12.17 Held blood donation charitable event.
- 2016.12.27 Chairman attended "Golden Security Award" held from JCIC.
Provided foreign currency ACH.
- 2017.01.09 New revision mobile banking launched.
- 2017.03.15 Fengyuan Branch moved to 330 Xiangyang Rd., Fengyuan Dist., Taichung as approved by FSC under Doc. No.Chin-Kuan-Yin-He-Tze 10600057500, which self-executing from 2017.03.15.
- 2017.04.20 Received Performance rank A of 'Domestic Banks strengthen SME loan'.
- 2017.05.01 Mr. Jung-Hsien Chiu as President.
Insurance Agent Department founded and merged with COTA Bank Insurance Broker Co Ltd.
- 2017.05.10 B2b banking launched.
- 2017.05.19 Fengyuan Branch new building started using.
- 2017.06.16 Held 2017 shareholder's regular meeting.
- 2017.09.01 IC ATM Card cross border withdrawal/debit launched.
- 2017.09.15 Publically announced capital increase issuance of new shares in 2017.
- 2017.09.21 Fengyuan Branch provide Number Taking online service.
- 2017.09.23 A sponsor of EDEN Social Welfare Foundation '2017 Touching Life'.
- 2017.10.10 A sponsor of '106th National Day Celebration Taichung Float Festivals'.
- 2017.11.09 Publically announced capital increase issuance of new shares by cash in 2017.
- 2017.11.20 A sponsor of Credit Union League of the Republic of China 'Flying dreams for driving bicycles'.
- 2017.12.16 A sponsor of GLSF '10th Bicycles sending Love'
- 2017.12.22 Held 2017 shareholder's 1st extraordinary meeting for voting 8th directors.
- 2017.12.23 Held blood donation charitable event.
- 2017.12.26 According to Taiwan Ratings Corp, COTA Bank Debt Rating Data: Long-term : twBBB+, Short-term : twA-2, Outlook: Stable.

* Head Office and Branches

Unit	Address	Tel	Fax
Head Office	59 Shihfu Road, Central District, Taichung City 400, Taiwan	886-4-22245171	886-4-22275237
Trusts Dept.	2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22807366	886-4-22809021
International Banking Dept.	2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87533599	886-2-87533573
Offshore Banking Branch	2F., 246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87533599	886-2-87533573
Consumer Banking Center	10F, 580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22384596	886-4-22378150
SME Banking Center	11F, 580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22370028	886-4-22372595
Wealth Management Center	2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22800361	886-4-22809747
Credit Card Center	2F., .339, Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22805288	886-4-22807688
Taichung Branch	59 Shihfu Road, Central District, Taichung City 400, Taiwan	886-4-22245161	886-4-22234491
Banking Dept.	32-1 Gongyuan Road, Central District, Taichung City 400, Taiwan	886-4-22211186	886-4-22229536
Chenggong Branch	580 Jinhua Road, North District, Taichung City 404, Taiwan	886-4-22304100	886-4-22304701
Xitun Branch	458 Sec. 2, Henan Road, Xitun District, Taichung City 407, Taiwan	886-4-27062968	886-4-27063816
Guoguang Branch	333 Sec. 3, Fusing Road, South District, Taichung City 402, Taiwan	886-4-22245111	886-4-22229281
Dazhi Branch	339 Dazhi Road, East District, Taichung City 401, Taiwan	886-4-22815998	886-4-22815977
Linsen Branch	99 Linsen Road, West District, Taichung City 403, Taiwan	886-4-23725151	886-4-23723024
Nanmen Branch	75 Nanmen Road, South District, Taichung City 402, Taiwan	886-4-22871146	886-4-22862412
Jinhua Branch	255 Jinhua North Road, North District, Taichung City 404, Taiwan	886-4-22333550	886-4-22335164
Nantun Branch	410 Nantun Road, Nantun District, Taichung City 408, Taiwan	886-4-24718500	886-4-24758522
Beitun Branch	751 Sec. 4, Wunsin Road, Beitun District, Taichung City 406, Taiwan	886-4-22426565	886-4-22417153
Fengyuan Branch	330 Xiangyang Road, Fengyuan District, Taichung City 420, Taiwan	886-4-25151788	886-4-25151895
Zhanghua Branch	181 Sec. 2, Zhongzheng Road, Zhanghua City, Zhanghua County 520, Taiwan	886-4-7298686	886-4-7298585
Yuanlin Branch	189 Sec. 1, Datong Road, Yuanlin Town, Zhanghua County 510, Taiwan	886-4-8383888	886-4-8383666
Taipei Branch	246 Yangguang Street, Neihu District, Taipei City 114, Taiwan	886-2-87512588	886-2-87512788
Taoyuan Branch	9 Sec. 2, Chenggong Road, Taoyuan City, Taoyuan County 330, Taiwan	886-3-3470505	886-3-3357373
Panchiao Branch	260 Minzu Road, Panchiao City, New Taipei City 220, Taiwan	886-2-89536001	886-2-89536011
Fengxin Branch	353, Zhongshan Road, Fengyuan District, Taichung City 420, Taiwan	886-4-25261181	886-4-25269540
Zhongshan Branch	36, Daming Road, Fengyuan District, Taichung City 420, Taiwan	886-4-25277155	886-4-25269553
Kaohsiung Branch	1, Wenfu Road, Zuoying District, Kaohsiung City 813, Taiwan	886-7-3505685	886-7-3506711
Tainan Branch	438, Sec 2, Datung Road, South District, Tainan City 702, Taiwan	886-6-2130966	886-6-2149088
Xinzhuang Branch	287, Chung Ping Road, Xinzhuang District, New Taipei City 242, Taiwan	886-2-22768887	886-2-22768611
Xinzhu Branch	196, Minsheng Road, East District, Hsinchu City 300, Taiwan	886-3-5313225	886-3-5323611
Fengshan Branch	478, Wenheng Road, Fengshan District, Kaohsiung City 830, Taiwan	886-7-7676772	886-7-7678719
Daya Branch	336, Yahuan Road, Daya District, Taichung City 428, Taiwan	886-4-25692549	886-4-25693431
Qiaotou Branch	55, Chenggong Road, Qiaotou District, Kaohsiung City 825, Taiwan	886-7-6116860	886-7-6112208
Dadu Branch	426-7, Sec.1, Shatian Road, Dadu District, Taichung City 432, Taiwan	886-4-26930289	886-4-26930293
Longjing Branch	196, Sec. 1, Zhongyang Rd., Longjing Dist., Taichung City 434, Taiwan	886-4-26397699	886-4-26397106
Tianzhong Branch	136, Sec. 2, Yuanji Rd., Tianzhong Township, Changhua County 520, Taiwan	886-4-8750886	886-4-8751268
Taiping Branch	233, Huantai E. Rd., Taiping Dist., Taichung City 411, Taiwan	886-4-23915189	886-4-23915255

COTA Commercial Bank Code of Ethical Conduct

Article 1

The Code of Ethics of COTA Commercial Bank (the "COTA") was established for the directors and managers of the COTA, as well as persons with the power of signature and managing matters for the COTA, so that they can comply with ethical standards.

Article 2

Directors, managers and persons with the power of signature and managing matters for the COTA must be objective and effective in handling COTA business and must not use their role in the COTA to allow themselves, their spouses, parents, children or close second-level relatives to obtain inappropriate benefits. The COTA must avoid any conflict of interest when providing capital loans or guarantees, or conducting major asset trading or buying (selling) transactions for enterprises related to the aforementioned personnel. These persons must voluntarily explain if there is any potential conflict of interest between themselves and the COTA.

Article 3

Directors, managers and persons with the power of signature and managing matters for the COTA must not:

- (1) plan to obtain personal gains by using COTA assets, COTA information, or their role in the COTA;
- (2) compete with the COTA. When opportunities for the COTA to obtain profits arise, directors, managers and persons with the power of signature and managing matters for the COTA have the responsibility to increase the legitimate and legal benefits the COTA may possibly gain.

Article 4

Directors, managers and persons with the power of signature and managing matters for the COTA must uphold the principles of fairness, integrity and transparency in the commercial process and shall not offer, promise, demand or receive any improper benefits directly or indirectly, nor commit unethical acts that violate the ethics, laws or their duties to obtain or maintain the benefit.

Article 5

Directors, managers and persons with the power of signature and managing matters for the COTA are obligated to not divulge information of the COTA or its buying (selling) clients unless otherwise authorized or required by law. Information to be concealed includes all unpublished information that, if leaked, may be used by competitors or cause damage to the COTA or its clients.

Article 6

Directors, managers and persons with the power of signature and managing matters for the COTA must treat buying (selling) clients, competitors and staff fairly, and must not gain benefits inappropriately by manipulating, concealing or abusing information obtained as part of their role in the COTA; or by misrepresenting important facts or employing other unfair trading practices.

Article 7

Directors, managers and persons with the power of signature and managing matters for the COTA have the responsibility to protect the assets of the COTA and ensure their effective and legal use in the business.

Article 8

Directors, managers and persons with the power of signature and managing matters for the COTA must comply with the Financial Holding COTA Act and the Securities and Exchange Act, follow other rules and regulations, and enforce the publicity of ethical values.

Article 9

The COTA encourages staff to report to the board of directors, managers, Chief of Internal Audit or other appropriate personnel in the event that they suspect or discover behavior contrary to the laws and regulations or the Code of Ethics, and to provide sufficient information for the COTA to take appropriate follow-up action.

To encourage employees to report violations, the COTA should set up a specific report system and let employees know that the COTA will make every effort to protect the safety of the reporter from suffering retaliation.

Article 10

If there is a situation where a director, manager or a person with the power of signature and managing matters for the COTA breaches the Code of Ethics, the COTA shall take disciplinary action in accordance with the COTA Act, the Articles of Incorporation, international regulations or other related laws and regulations, and the COTA shall immediately disclose the information regarding the violation on the Market Observation Post System, including the title and name of the offender, violation date and reason, code of violation, processing status, etc. The COTA should also establish a corresponding appeals system to provide assistance for personnel accused of breaching the Code of Ethics.

Article 11

The approval of the board of directors is required if an exemption to follow the Code of Ethics by directors, managers or persons with the power of signature and managing matters for the COTA is necessary. Details of the exemption, including exempt person, title, date approved by the board, independent directors' opposing or reserved opinions, period of the exemption, reason for the exemption and the code applicable, must be posted on MOPs in a timely manner. This allows shareholders to assess if the decision of the board was appropriate and should suppress suspicious exemptions or exemptions requested at will from happening. It also ensures that a proper control and management system exists for any exemption in order to protect the interests of the COTA.

Article 12

The COTA should publish its Code of Ethics on annual report, public information booklet and the Open Information observatory; it should do so whenever the Code of Ethics is revised.

Article 13

The Code of Ethics of the COTA will be implemented after being approved by the board of directors, audit committee and will be presented in shareholders' meetings; and the same shall apply whenever it is revised.



COTA Commercial Bank

2017