



Mega International Commercial Bank

# Annual Annual Report 2016 Report 2016



## Notice

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

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**Service Network**

Refer to Service Network Section for details of domestic and overseas business units

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**Auditor of Financial Report**

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As a result of stagnant global trade, weak investment, and highly uncertain economic policies in major countries, global economic growth rate in 2016 was merely 3.1%, a new low since the financial tsunami. In Taiwan, although domestic economy started to warm up in the second half of the year, the economic growth rate was only 1.5%, still on the low side.

The unfavorable environment affected the momentum of Mega Bank's business expansion. Average loan business volume in 2016 was slightly lower than last year's by 1.45%. In addition, as its New York Branch failed to comply with Bank Secrecy Act and Money Laundering Control Act of the United States, the Bank was fined US\$180 million by the New York State Department of Financial Services in August, 2016. The impact led overall net pretax profit to drop by 23.78% to NT\$23.058 billion in 2016. As of the end of the year, the Bank's non-performing loan ratio was 0.09%, coverage ratio of allowances for bad debt was 1,614%, capital adequacy ratio was 14.32%, and common equity Tier I ratio was 12.57%. This performance is considered sound within the industry.

Thereafter the Bank reflected upon the incident. In recent years, in the midst of boosting sales, although the Bank was aware of the importance of strengthening management and complying with laws and regulations, it was not able to keep up with the tendency, and did not do enough. On top of that, its New York Branch omitted identifying and reporting a few questionable transactions involved with suspected money laundering activities when conducting remittance transactions, and the deficiency led to the incident.

2017 is the year of transformation and action for Mega Bank. The Bank adjusts its business strategies, enhances its head office's management, restructures its organization, increases staff training, implements an information system to improve monitoring of suspicious transactions, engages a large number of regulatory compliance and anti-money laundering specialists, etc., so as to improve the mechanism of internal audit, internal control and regulatory compliance, and build a corporate culture of legal compliance. The Bank demands itself to meet the highest international standard, and to be in compliance with the regulations of domestic and overseas supervisory authorities.

## **Operation Results of 2016**

### **I. Global & Domestic Economic Dynamics**

#### **1. Economic Growth**

The global economic growth in 2016 failed to meet the expectation. According to IMF, the growth rate was 3.1%, a new low after the financial tsunami. The main reasons were stagnant global trade of goods and services, increasing policy uncertainties and weak investment. Looking forward to 2017, there may be a higher momentum for economic recovery. IMF predicts global economic growth rate to increase to 3.4%, the highest in the last five years. For advanced countries, corporates are expected to increase investment in line with better economic outlook; and a confidence of upward private consumption is supported by a higher probability of wage increase due to the best shape of labor markets since the financial tsunami. In addition, that monetary policies in advanced countries is likely easing will improve the global economy. Specifically, IMF predicts the fiscal stimulus proposed by the Trump administration may increase the US economic growth for this and next year by 0.1% and 0.4% respectively, generating positive spillover effects for other countries. Also, commodity prices are still relatively low, which is of limited help to the economies of exporting countries. The biggest downside risk to the world economy is protectionism from the US President Trump. A trade war may break out and impacts the global economy, if the Dollar further strengthens and results in the widening of the US trade deficit, according to IMF.

The domestic economy picked up in 2016, with economic growth rate increased every quarter after hitting a low in Q1. In the second half of the year, due to the recovery of the world economy, rebound of international commodity prices, and stable growth in domestic demand, the economic growth rate of the year reached 1.50%, exceeding the 1% threshold.



**Chairman**  
Chao-Shun Chang

Looking forward to 2017, major international research institutions predict that the global economy and trade will be better than last year. In Taiwan, we may continue to see stable private consumption, import-export gaining momentum, and public and private investment increasing as a result of the government's promotion of innovative industry. The Directorate-General of Budget, Accounting and Statistics (DGBAS) predicts that this year's economic growth will reach 1.92%. However, variables, including implementation of Trump's policies, the frequency of interest rate hikes by the US Federal Reserve, elections in European countries, the emergence of trade protectionism, China's structural adjustment, international raw material price fluctuation, etc., will affect Taiwan's economic performance this year.

## **2. Financial Market**

In terms of interest rate, due to the slow momentum of economic recovery worldwide and the unfavorable domestic economy in the last two years, the Central Bank of the Republic of China (Taiwan) has reduced the interest rate by 12.5 basis points each quarter for four consecutive quarters from September 2015 to June 2016. Also, affected by the sluggish domestic economy, limited funding needs by companies and interest rate cuts, resulting in an average overnight rate of 0.19%, lower than last year's average of 0.35%. In the second half of 2016, due to the gradual recovery of the domestic economy, the Central Bank kept the interest rate unchanged till the end of the year, ending the easing cycle for the time being. Looking forward, with a stronger recovery of the global economy, domestic economic growth may be better than last year. Besides, with inflation at a mild level, it is expected that the Central Bank will keep its easing monetary policy in order to support the economy.

In terms of exchange rate, due to sharp fall in the global stock market, drop in oil prices and foreign investors oversell, the NT dollar dropped to a low of 33.838 per US dollar at one point in early 2016. However, in the second half of the year, as the global economy warmed up, raw materials prices rebounded, the domestic economy improved and foreign investment increased significantly, TAIEX rose above 9,400 point mark; as a result, the NT dollar also appreciated, reaching 31.225 per US dollar at one point. However, in November, due to the impact of the US presidential election and increase in the US interest rate, the US dollar strengthened again, causing the NT dollar to drop to around 32 per US dollar. The average exchange rate for 2016 was NT\$32.30, a depreciation of 1.15% from NT\$31.93 in the previous year.

## II. Change in Organization Structure

In view of the increasingly strict international financial supervision standards, and considering the Bank's 39 overseas branches and subsidiaries in 19 different jurisdictions, in 2016 the Bank resolved to set up Overseas Branches Administration Department to supervise so as to enhance management efficiency. At the same time, Business Administration Department was set up as the supervisory unit for domestic branches. Also, considering the fact that anti-money laundering is a prior regulatory compliance issue, the Bank set up Anti-Money Laundering Center to manage matters related to anti-money laundering and counter financing terrorism.

In addition, the Bank reinstated the Overdue Loan & Control Division, which was formally under the Credit Control Department, to the Overdue Loan & Control Department.

In line with the trend of digital finance, the Bank restructured Global Electronic Banking Center to Digital Banking Department to speed up its business innovation.

To assist its directors in doing their duties, the bank set up a secretary group to handle matters related to agenda of Board of Directors meetings, so as to enhance corporate governance.

The Bank has restructured Auditing Office to Auditing Department.

## III. Operating Results in 2016

Units: millions in N.T. dollars, except as indicated

Item	Year	2016	2015	Change (%)
Deposits (Note 1)		2,189,718	2,080,552	5.25
Loans (Note 2)		1,739,548	1,765,178	-1.45
Corporate Financing		1,356,748	1,377,601	-1.51
Consumers Financing (Note 3)		382,800	387,577	-1.23
Foreign Exchange Business (millions in US\$)		805,160	842,207	-4.40
Securities Purchased		435,646	380,305	14.55
Long-term Equity Investments		22,208	23,472	-5.39
Credit Card Loans		1,155	1,230	-6.10

Note 1: including due to China Post Co.

Note 2: the figure in 2016 with amount of non-performing loans NT\$1,631 million, NPL ratio 0.09%, and coverage ratio 1,614.16%

Note 3: excluding credit card loans

## IV. Budget Implementation

2016 Pretax Income (millions in NT dollars)	2016 Pretax Income Budget (millions in NT dollars)	Budget Achievement Rate (%)
23,058	28,003	82.34



**President**  
Li-Yen Yang

## **Summary of Business Plan for 2017**

### **I. Business Plan**

- Establish comprehensive anti-money laundering mechanism and enhance laws and regulations compliance to build a sound legal compliance culture.
- Comprehensively review overseas branches' performance and enhance management.
- Strengthen the Bank's corporate finance niche to maintain market dominance.
- Keep up with the development of digital finance and accelerate business innovation and transformation.
- Give full play to the professional advantage in offshore banking to improve performance.
- Steadily develop wealth management business to increase fee income.
- Establish comprehensive risk management to achieve equilibrium between expanding business in the short-term and stabilizing profit in the long-term.

### **II. Business Objectives**

With consideration of current economic and financial developments, the Bank has set up the following business targets based on competitive strategies for the year of 2017: total deposits of NT\$2,278,400 million, total loans of NT\$1,780,500 million and foreign exchange business of US\$808,100 million.

## Development Strategies

- Anti-Money Laundering Center shall be dedicated to the planning and effective implementation of the Bank’s anti-money laundering mechanism, to ensure the execution of anti-money laundering/counter-terrorism financing tasks of entire bank meet requirements of competent authorities in various jurisdictions.
- External consultants and independent legal compliance officers shall assist Head Office and overseas branches better understand relevant laws and regulations of the country each branch registers, so as to ensure operations are in compliance.
- Implement self-assessment of risk in cybersecurity and increase the soundness of the Bank’s network security mechanism and infrastructure, so as to meet international supervisory standards.
- Make use of big data and social media marketing to shape a lifestyle brand image and to approach young adults.
- Launch an internal rating model to assess overseas branches’ corporate finance and consumer finance credit risk, to expand the scope of risk quantification.

## Major Regulatory Changes and Influences

In August 2016, the Financial Supervisory Commission (FSC) has put forward the “Financial Sector Supporting the Real Economy-Four Supports with Three Powers Project” through the function of the Entrepreneurship Fund and Angel Fund. Also, to effectively guide capital into the main innovative industries, including green technology, Asian Silicon Valley, bio-pharmaceuticals, national defense industry and smart machinery, the FSC has therefore promulgated the “Program to Encourage Lending by Domestic Banks to Main Innovative Industries” to enhance mutual benefit between the financial industry and other industries.

The FSC announced amendments to the “Directions Governing Anti-Money Laundering and Countering Terrorism Financing of Banking Sector” on December 2, 2016. In order to improve regulatory compliance, the FSC demanded banks to enhance the soundness of internal control and audit system, strengthen the compliance with the regulations of Anti-Money Laundering and management of overseas branches’ risk, and arrange long-term staff training.

The FSC continued to extend the permitted scope and increased regulatory relaxation in FinTech industry. However, to maintain the order of financial market, The FSC will adapt approval system when the specialized electronic payment institutions deal with privileged financial business. It is expected that after the approval of “Financial Technology Innovative Experimentation Act” in 2017, the cooperation between technology and financial industry will become tighter then create more added valued and increase the operating efficiency of domestic financial industry.

## Credit Rating

As of June, 2017

Credit Rating Institute	Credit Rating		Outlook	Publication Date (Year/Month)
	Long-term	Short-term		
Moody’s	A1	P-1	Stable	2016/12
S&P	A	A-1	Stable	2016/10
Taiwan Ratings Corp.	twAA+	twA-1+	Stable	2016/10

Chao-Shun Chang



Chairman

Li-Yen Yang



President



**Historical Overview**

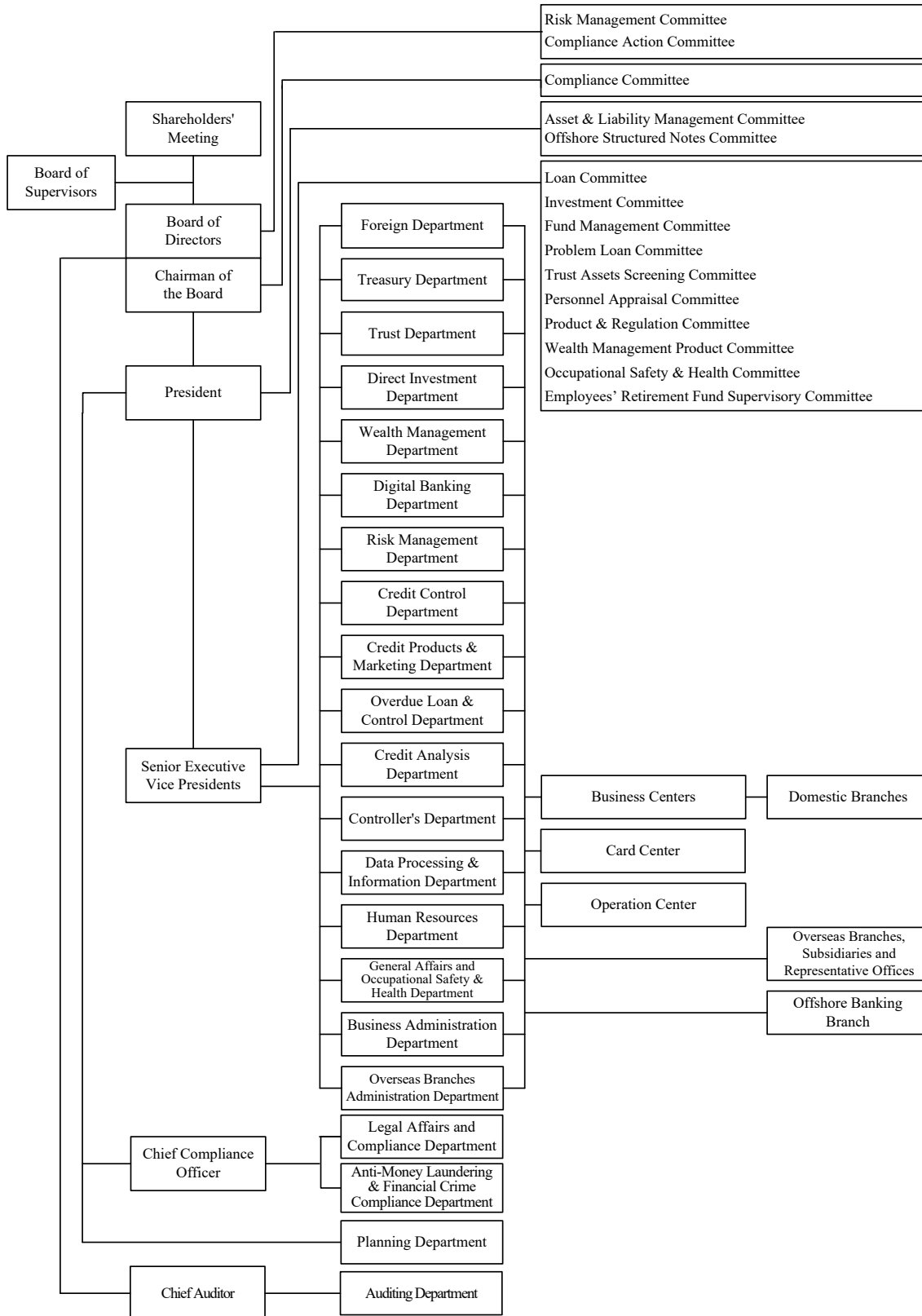
Mega International Commercial Bank Co., Ltd. (Mega Bank) has come into being as a result of the merger of The International Commercial Bank of China and Chiao Tung Bank, effective on August 21, 2006. Both banks have been proud of their longtime histories of outstanding track records in our country.

In 1971, The Bank of China was privatized to become The International Commercial Bank of China Co., Ltd. (ICBC), whose origin dates back to the Ta Ching Bank and its predecessor, the Hupu Bank (the bank under the finance arm of the imperial court in the Ching Dynasty). The Bank of China had been entrusted with the mission to serve as an agent of the Treasury and a note-issuing bank before the establishment of the Central Bank of China in 1928. The Bank of China was designated as a licensed specialized bank for international trade and foreign exchange thereafter. Taking advantage of its specialization in foreign exchange, worldwide network of outlets and correspondence banks, superb bank assets, and excellent business performance, ICBC has become a top-notch bank in the Republic of China.

Set up five years before the founding of the Republic of China, Chiao Tung Bank Co., Ltd. (CTB) had also been delegated to act as an agent of the government coffer and a note-issuing bank in concert with the Bank of China at the outset of the Republic. Transforming from a licensed bank for industries in 1928, an industrial bank in 1975, and a development bank in 1979, CTB turned from a state-controlled bank into a privately-owned one in 1999. It has engaged in loan extensions for medium- and long-term development, innovation and guidance investment (equity investment), and venture capital ever since. For years, CTB has made significant contributions to the improvement of industrial structure and the promotion of the upgrading of industry by assisting in the development of strategic and vital industries in line with the economic policy and the economic development plan of the government.

CTB and International Securities Company formed the CTB Financial Holding Company in 2002. Late on, Chung Hsing Bills Finance Corporation and Barits International Securities Company came under the financial umbrella. On December 31, 2002, Chung Kuo Insurance Company and ICBC joined forces with the Company to form a conglomerate named Mega Financial Holding Company.

With a view to enlarging the business scale and increasing the market share, ICBC and CTB formally merged into one bank under the name of Mega International Commercial Bank Co., Ltd. on August 21, 2006. By the end of 2016, the Bank has 108 branches (including Foreign Department) at home, and 22 branches, 5 sub-branches, and 5 representative offices (including marketing office) abroad. Together with the network are wholly-owned bank subsidiaries in Thailand and Canada, along with their branches, bringing the number of overseas outposts to 39 in total. It has manpower 5,543 and an aggregate paid-in capital of NT\$85.362 billion.



## **Directors, Supervisors & Major Shareholders of the Institutional Shareholders**

### **I. Board of Directors and Supervisors**

As of December 31, 2016

<b>Title</b>	<b>Name</b>	<b>Current Position / Occupation</b>
Chairman of the Board	Chao-Shun Chang	Chairman of the Board Mega Financial Holding Company and Mega Bank
Managing Director & President	Li-Yen Yang	President Mega Financial Holding Company and Mega Bank
Managing Director	Ming-Chuan Ko	Senior Executive Vice President Mega Bank
Managing Director	Chien-Liang Chiu	Dean College of Business and Management, Tamkang University
Independent Managing Director	Tien-Chang Huang	Independent Director Mega Securities Co., Ltd.
Independent Director	Kai Ma	Independent Managing Director Taiwan Power Company
Independent Director	Tai-Long Chen	Secretary General Financial Planning Association of Taiwan
Director	Ching-Wen Lin	Professor Department of International Business Administration, Chinese Culture University
Director	Chun-Hsiung Cho	Professor Department of Law, Tunghai University
Director	Sui-Chang Liang	Principal Attorney Liang & Associates, Attorneys-at-Law
Director	Wen-Ling Hung	Professor Department of Administration Police, Central Police University
Director	Jhy-Yuan Shieh	Professor Department of Economics, Soochow University
Director	Yong-Yi Tsai	Senior Executive Vice President Mega Bank
Director	Chih-Hsien Hsieh	Assistant Vice President Mega Bank
Resident Supervisor	Sheng-Chang Liu	Director C.H. CHANG & Co. Certified Public Accountants
Supervisor	Hung-Shu Fan	Professor Department of Accounting, Fu Jen Catholic University
Supervisor	Chia-Chi Hsiao	Director General Department of Fiscal, Statistical and Financial Affairs, Executive Yuan
Supervisor	Juan-Chi Weng	Managing Partner Trust and Assist CPAs
Supervisor	Jiin-Feng Chen	Associate Professor Department of Accounting, National Chengchi University

## II. Professional Qualifications and Independence Analysis of Directors and Supervisors

As of December 31, 2016

Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)										Number of other public companies in which the individual is concurrently serving as an Independent Director
	An instructor or higher position in a Department of Commerce, Law, Finance, Accounting, or other academic department related to the business needs of the bank 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 been awarded a certificate in a profession necessary for the business of the bank	Have work experience in the areas of commerce, law, finance, accounting, or otherwise necessary for the business needs of the bank	1	2	3	4	5	6	7	8	9	10	
Chao-Shun Chang		✓	✓	✓		✓	✓			✓	✓	✓		
Li-Yen Yang			✓	✓		✓	✓			✓	✓	✓		
Ming-Chuan Ko			✓		✓	✓	✓	✓		✓	✓	✓		
Chien-Liang Chiu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Tien-Chang Huang			✓	✓		✓	✓	✓		✓	✓	✓		2
Kai Ma	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Tai-Long Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Ching-Wen Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Chun-Hsiung Cho	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Sui-Chang Liang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Wen-Ling Hung	✓		✓	✓		✓	✓			✓	✓	✓		
Jhy-Yuan Shieh	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Yong-Yi Tsai			✓			✓	✓	✓		✓	✓	✓		
Chih-Hsien Hsieh			✓			✓	✓	✓		✓	✓	✓		
Sheng-Chang Liu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Hung-Shu Fan	✓		✓	✓	✓	✓	✓	✓		✓	✓	✓		1
Chia-Chi Hsiao			✓	✓		✓	✓			✓	✓	✓		
Juan-Chi Weng		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Jiin-Feng Chen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1

Note: Check (“✓”) the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

- Not an employee of the Bank or any of its affiliates.
- Not a director or supervisor of the Bank’s affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank’s parent company, or any subsidiary in which the Bank holds, directly or indirectly, more than 50% of the voting shares.
- Not a natural-person shareholder who holds shares, together with those held by the person’s spouse, minor children, or held by the person under others’ names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Bank or ranking in the top 10 in holdings.
- Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
- Not a director, supervisor, or employee of a Bank shareholder that directly holds 5% or more of the total number of outstanding shares of the Bank or that holds shares ranking in the top five in holdings.
- Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Bank.
- Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the “Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEX”.
- Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Bank.
- Not been a person of any conditions defined in Article 30 of the Company Law.
- Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

### III. Major Shareholders of the Institutional Shareholders

As of December 31, 2016

Name of the Institutional Shareholders	Top Shareholders (Percentage of Shares Ownership)
Mega Financial Holding Co., Ltd.	Ministry of Finance, R.O.C. (8.40%)
	National Development Fund, Executive Yuan, R.O.C. (6.11%)
	Chunghwa Post Co., Ltd. (3.50%)
	Fubon Life Insurance Co., Ltd. (3.47%)
	Cathay Life Insurance Co., Ltd. (2.98%)
	Bank of Taiwan Co., Ltd. (2.46%)
	Nan Shan Life Insurance Co., Ltd. (1.80%)
	China Life Insurance Co., Ltd. (1.69%)
	Pou Chen Corporation (1.41%)
	Government of Singapore-GOS-EFM C (1.29%)

### IV. Policies for Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Bank and its subsidiaries calculate the number of shares based on the closing price at the previous day of the Board of Directors' resolution day.

## **Execution of Corporate Governance**

### **I. Attendance Record**

A total of forty nine meetings of the Board of Directors were held in 2016. The attendance of directors and supervisors was as follows:

<b>Title</b>	<b>Name</b>	<b>Attendance in Person</b>	<b>By Proxy</b>	<b>Attendance rate (%)</b>	<b>Remarks</b>
Chairman	Yeou-Tsair Tsai	9	0	100.0	Relieved on Apr.1, 2016
Chairman	Kuang-Si Shiu	4	2	66.7	Assumed on Aug.16, 2016 Relieved on Aug.31, 2016
Chairman	Chao-Shun Chang	17	1	94.4	Assumed on Sep.2, 2016
Managing Director	Hann-Ching Wu	33	0	100.0	Relieved on Sep.10, 2016
Managing Director	Li-Yen Yang	16	0	100.0	Assumed on Sep.10, 2016
Managing Director	Jen-Hui Hsu	24	9	72.7	Relieved on Sep.10, 2016
Managing Director	Shu-Chen Wang	32	1	97.0	Relieved on Sep.10, 2016
Managing Director	Ming-Chuan Ko	10	6	62.5	Assumed on Sep.10, 2016
Managing Director	Chien-Liang Chiu	15	1	93.7	Assumed on Sep.10, 2016
Independent Managing Director	Tien-Chang Huang	49	2	95.9	Assumed on Sep.1, 2016
Independent Director	Kai Ma	14	0	87.5	Re-elected
Independent Director	Tai-Long Chen	16	0	100.0	Assumed on Sep.1, 2016
Director	Yuan-Chung Lee	9	0	100.0	Relieved on Sep.10, 2016
Director	Ching-Long Lin	9	0	100.0	Relieved on Sep.10, 2016
Director	Bie-Ling Lee	9	0	100.0	Relieved on Sep.10, 2016
Director	In-Ming Lee	9	0	100.0	Relieved on Sep.10, 2016
Director	Po-Cheng Chen	9	0	100.0	Relieved on Sep.10, 2016
Director	Chuang-Hsin Chiu	7	1	77.8	Relieved on Sep.10, 2016
Director	Mei-Chi Liang	9	0	100.0	Relieved on Sep.10, 2016
Director	Chih-Hsien Hsieh	16	0	100.0	Assumed on Sep.1, 2016
Director	Ching-Wen Lin	5	0	71.4	Assumed on Sep.10, 2016
Director	Chun-Hsiung Cho	7	0	100.0	Assumed on Sep.10, 2016
Director	Shih-Yang Chen	3	0	100.0	Assumed on Sep.10, 2016 Relieved on Oct.15, 2016
Director	Sui-Chang Liang	5	2	71.4	Assumed on Sep.10, 2016
Director	Wen-Ling Hung	5	0	71.4	Assumed on Sep.10, 2016
Director	Jhy-Yuan Shieh	7	0	100.0	Assumed on Sep.10, 2016
Director	Yong-Yi Tsai	7	0	100.0	Assumed on Sep.10, 2016
Resident Supervisor	Chyan-Long Jan	33	0	100.0	Relieved on Sep.10, 2016
Resident Supervisor	Sheng-Chang Liu	19	0	100.0	Assumed on Sep.10, 2016
Supervisor	Yu-Hui Su	9	0	100.0	Relieved on Sep.10, 2016
Supervisor	Hung-Shu Fan	9	0	90.0	Assumed on Sep.10, 2016
Supervisor	Chia-Min Hong	9	0	100.0	Relieved on Sep.10, 2016
Supervisor	Chia-Chi Hsiao	10	0	100.0	Assumed on Sep.10, 2016
Supervisor	Tsung-Chih Hsu	9	0	100.0	Relieved on Sep.10, 2016
Supervisor	Juan-Chi Weng	9	0	90.0	Assumed on Sep.10, 2016
Supervisor	Jui-Ying Tsai	9	0	100.0	Relieved on Sep.10, 2016
Supervisor	Jiin-Feng Chen	10	0	100.0	Assumed on Sep.10, 2016

Note: 1. The Bank's directors and supervisors are appointed by the Mega Financial Holding Company.

2. None of the independent directors has a dissenting opinion or qualified opinion on the resolutions.

3. The attendance rate is calculated as the ratio of the number of Board of Directors meetings attended to the number held during the term in office.

4. The Board of Directors has performed its duties in compliance with the related laws and regulations.

## II. Corporate Governance Implementation Status and Deviations from “Corporate Governance Best-Practice Principles for Banks” and reasons

As of December 31, 2016

Evaluation Item	Implementation Status		
	Yes	No	Abstract Illustration
<b>A. Ownership Structure and Shareholders’ Equity</b> 1. Does the Bank establish an internal operating procedure to deal with shareholders’ suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		<ul style="list-style-type: none"> <li>■ The Bank is a 100% owned subsidiary of Mega Financial Holding Company (“Mega FHC”). The Bank’s operation and management, financial business information and audit management are handled in accordance with the “Regulations on Supervision of Mega FHC’s Subsidiaries”. Recommendations or questions regarding the Bank’s operations may be conveyed through formal letters, telephones, emails, etc. The Bank’s business supervisory units will handle or explain the case, in accordance to the internal operating procedures.</li> <li>■ Mega FHC is the Bank’s sole shareholder. Any shareholders’ dispute or litigation shall be handled by the relevant units. However, if due to complexity of the case or other special factors, where it is necessary to engage a lawyer, the units, according to Article 3 of the Bank’s Directions for Handling Legal Cases, shall request for approval from the Chief Compliance Officer before engaging a lawyer.</li> </ul>
2. Does the Bank possess the identities of its major shareholders as well as the ultimate owners of those shares?	✓		<ul style="list-style-type: none"> <li>■ Mega FHC is the Bank’s sole shareholder and ultimate controller.</li> </ul>
3. Does the Bank establish and execute the risk management and firewall system within its conglomerate structure?	✓		<ul style="list-style-type: none"> <li>■ The responsibilities for the management and risk control mechanism of personnels, assets and financial matters of the Bank and affiliated companies are completely independent; and tight firewall mechanisms are established and executed:               <ul style="list-style-type: none"> <li>● Information security: The Bank has established an online scam prevention and security system, and set up transaction authorization control and information access authority.</li> <li>● Client confidentiality: The person in charge of processing and using customer information has to be authorized for entering and removing customers’ personal particulars, and a post-execution supervision mechanism is in place to ensure the appropriateness of authorization.</li> <li>● Stakeholder transactions: The Bank has established “Rules on Handling Stakeholder Transaction”. Also, in accordance with the relevant laws and regulations, the stakeholder transaction balance is submitted to the parent company, Mega FHC, regularly. Mega FHC then discloses the related information and submits it to the competent authority.</li> </ul> </li> </ul>
<b>B. Composition and Responsibilities of the Board of Directors</b> 1. Does the Bank voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?	✓		<ul style="list-style-type: none"> <li>■ After joining Mega FHC, the Bank is delisted from the stock market and is not mandatory to set up a Remuneration Committee. The design and adjustment of the Bank’s remuneration is submitted to Mega FHC for approval.</li> <li>■ Mega FHC has set up an Audit Committee. According to the regulations issued by Financial Supervisory Commission, a</li> </ul>

Evaluation Item	Implementation Status		
	Yes	No	Abstract Illustration
			<p>company 100% owned by a financial holding company may choose to set up an audit committee or appoint supervisors, and the Bank has adopted the latter. The Bank's supervisors may communicate with the Bank's employees, head of internal audit and shareholders at any time, and convene supervisors meetings from time to time, with the attendance of a CPA where necessary.</p> <ul style="list-style-type: none"> <li>■ The Bank has 15 committees, and the board of directors is in charge of the Risk Management Committee and Compliance Action Committee.</li> </ul>
2. Does the Bank regularly evaluate the independence of CPAs?	✓		<ul style="list-style-type: none"> <li>■ When appointing a CPA, the Bank shall assess its independence and request it to provide "Independence Declaration on the Auditing and Attestation of Financial Report by the Certified Public Accountant".</li> </ul>
<b>C. If the Bank is a listed or OTC company, is it required to set up dedicated (non-dedicated) unit or personnel in charge of matters related to corporate governance?</b>	✓		<ul style="list-style-type: none"> <li>■ The Bank is a 100% owned subsidiary of Mega FHC, and is not listed on Taiwan Stock Exchange or Taipei Exchange. However, the Bank's General Affairs and Occupational Safety &amp; Health Department is in charge of company registration and change registration, and matters related to shareholders meetings. The office of the board of directors is in charge of matters related to the board of directors meetings, and providing information regarding the duties of directors and supervisors.</li> </ul>
<b>D. Does the Bank establish a communication channel with interested parties?</b>	✓		<ul style="list-style-type: none"> <li>■ The Bank has diverse communication channels with interested parties such as customers, employees, suppliers, community residents, etc. These parties may contact the Bank through the 24-hour customer hotline or public website; or may communicate with the Bank through letter or meeting. Also, a labor union bulletin in the Bank's intranet allows employees to express their opinions.</li> <li>■ In terms of communicating with interested parties defined in The Banking Act and Financial Holding Company Act, the Bank's Head Office requests all units to provide the interested parties. The interested parties profile shall be maintained in the Bank's e-Loan System and Mega FHC's intra-information system. Should there be any change, the person concerned shall be communicated, and the profile updated immediately.</li> </ul>
<b>E. Information Disclosure</b> 1. Does the Bank have a corporate website to disclose both financial standings and the status of corporate governance?	✓		<ul style="list-style-type: none"> <li>■ The Bank's official website (<a href="https://www.megabank.com.tw">https://www.megabank.com.tw</a>) is maintained by dedicated personnels regularly to disclose information regarding the Bank's business, financials and corporate governance.</li> </ul>
2. Does the Bank have other information disclosure channels (e.g. building an English website, appointing designated people to handle information collection and disclosure, creating a spokesman system, webcasting investor conferences)?	✓		<ul style="list-style-type: none"> <li>■ The Bank's official website has an English version, <a href="https://www.megabank.com.tw/en/">https://www.megabank.com.tw/en/</a>. If there's information needed to be made public in accordance with the relevant laws and regulations, the Bank shall, within the legal time limit, designate a personnel to report and disclose immediately.</li> <li>■ The Bank has established "Procedures for Releasing Information by Spokesperson and Acting Spokesperson". The Spokesperson and Deputy Spokesperson speak publicly on behalf of the Bank by means of press release, website disclosure or disclosure of information.</li> <li>■ The investor conference is handled by the parent company, Mega FHC.</li> </ul>



Evaluation Item	Implementation Status		
	Yes	No	Abstract Illustration
F. Is there any other important information to facilitate a better understanding of the Bank's corporate governance practices (e.g., 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, and purchasing insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?	✓		<ul style="list-style-type: none"> <li>■ Employees' rights: The Bank shall inform the employees in advance of any job relocation. If the change of business nature results in no suitable jobs for the employee, or the employee is incompetent in taking up the job, the Bank shall, according to the Labor Standards Act, inform the employee in advance of the termination of employment contract at least 10 to 30 days. In addition, the Bank and the Union have established a collective agreement. The Bank has set up the Personnel Appraisal Committee, formed by the Bank and union representatives, responsible for the review of awards and penalties of the employees. It has also established the Occupational Safety &amp; Health Committee, responsible for the planning and handling, review and supervision of matters related to labor safety, hygiene and health. Employees' Retirement Fund Supervisory Committee is also set up to safeguard employees' pension.</li> <li>■ Employee welfare: The Bank has set up the Employee Welfare Committee, responsible for the review and planning of employee welfare services and fund allocation. In addition, the Bank conducts regular employees' health checkup and seminars. Employees can also obtain health knowledge through e-learning to achieve the objective of preventive health care.</li> <li>■ Investor relationship: The Bank is fully answerable to its parent company, Mega FHC, for its business performance.</li> <li>■ Directors to recuse themselves from cases in which they have a material interest: As per Rules and Procedures of shareholders meeting of the Bank, interested parties with respect to proposals shall recuse themselves from discussions or voting to avoid the conflict of interest.</li> <li>■ Advanced studies of directors and supervisors: the Bank provides directors and supervisors with opportunities enhancing their professional competency.</li> <li>■ Execution of customer policies: According to the various regulations of the competent authority and bank union, the Bank shall state in the contract, regulations to be complied, whereby customers can claim the right based on the contracts.</li> <li>■ Purchasing liability insurance for directors and supervisors: The Bank purchases "Directors and Key Employees Liability Insurance" for all directors and supervisors.</li> <li>■ Donations: The Bank has, over the years, organized various activities and donated to charities and non-profit organizations. The donation process strictly complies with the various internal and external laws and regulations.</li> </ul>
G. If the Bank has implemented a self corporate governance evaluation or has authorized any other professional organization to conduct such an evaluation?		✓	<ul style="list-style-type: none"> <li>■ The Bank has not yet carried out corporate governance self-assessment reports or hired an outside institution to carry out corporate governance assessment reports.</li> </ul>

The above mentioned corporate governance implementation status of the Bank has no deviation from the "Corporate Governance Best-Practice Principles for Banks".

**Capital & Shares**

**I. Source of Capital Stock**

Unit: NT\$; share

Year/Month	Par Value (NT\$)	Authorized Capital		Paid-in Capital		Remark
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Source of Capital
2002/12	10	3,726,100,000	37,261,000,000	3,726,100,000	37,261,000,000	Public offering
2006/08	10	2,684,887,838	26,848,878,380	2,684,887,838	26,848,878,380	Issuance of new shares for merger
2011/10	10	389,012,162	3,890,121,620	389,012,162	3,890,121,620	Transference of un-appropriated earnings
2012/09	10	300,000,000	3,000,000,000	300,000,000	3,000,000,000	Issuance of common stock (Private placement)
2013/12	10	600,000,000	6,000,000,000	600,000,000	6,000,000,000	Issuance of common stock (Private placement)
2015/06	10	300,000,000	3,000,000,000	300,000,000	3,000,000,000	Issuance of common stock (Private placement)
2015/12	10	536,233,631	5,362,336,310	536,233,631	5,362,336,310	Issuance of common stock (Private placement)

**II. Type of Stock**

Unit: share

Type	Authorized Capital			Remark
	Issued Shares	Unissued Shares	Total Shares	
Ordinary Share	8,536,233,631	0	8,536,233,631	Public offering

Note: Shares have been stopped listed since the Bank joined Mega Financial Holding Company on December 31, 2002.

**III. Structure of Shareholders**

As of December 31, 2016

	Government Agencies	Financial Institutions	Other Juridical Person	Domestic Natural Persons	Foreign Institutions & Natural Persons	Total
Number of Shareholders		1				1
Shareholding (shares)		8,536,233,631				8,536,233,631
Percentage		100.00%				100.00%

Note: 100% shares are held by Mega Financial Holding Company.

**IV. List of Major Shareholders**

As of December 31, 2016

Shareholder's Name	Shareholdings	
	Shares	Percentage
Mega Financial Holding Co., Ltd.	8,536,233,631	100.00%

## **Other Fund-Raising Activities**

### **I. Issuance of preferred shares, global depository receipts, and employee share subscription warrants:**

None.

### **II. Mergers, acquisitions, and issuance of new shares due to acquisition of shares of other companies:**

None.

(Blank below)

**Business Activities**

**I. Business Scope: Commercial banking, including a wide range of services indicated as following:**

- |   |  |
|---|--|
| <p>1. Domestic Branches</p> <ul style="list-style-type: none"> <li>■ Deposits</li> <li>■ Loans &amp; Guarantees</li> <li>■ Documentary Credits</li> <li>■ Remittance &amp; Bill Purchase</li> <li>■ Offshore Banking</li> <li>■ Trust Business</li> <li>■ Foreign Exchange Trading</li> <li>■ Safety Boxes Services</li> <li>■ Consumer Banking</li> <li>■ U Card, VISA Card, MasterCard, JCB Card</li> <li>■ Consignment Securities</li> <li>■ Agency Services</li> <li>■ Money Market Securities</li> <li>■ Agency for selling gold, silver, gold/silver coins, Gold Deposit Account</li> <li>■ Electronic Banking</li> <li>■ Investment Banking</li> </ul> | <p>2. Overseas Branches</p> <ul style="list-style-type: none"> <li>■ Deposits</li> <li>■ Loans &amp; Guarantees</li> <li>■ Documentary Credits</li> <li>■ Remittance &amp; Bill Purchase</li> <li>■ Foreign Exchange Trading</li> <li>■ Loans Backed by the Overseas Chinese Credit Guarantee Fund</li> <li>■ Trading Consulting Services</li> <li>■ Warehousing Services</li> </ul> |
|---|--|

**II. Distribution of Mega Bank's Net Operating Income**

As of December 31, 2016

Item	Amount (thousands in NT\$)	As percentage of Net Operating Income (%)
NET INTEREST INCOME	35,045,060	77.57
NON-INTEREST INCOME	10,135,583	22.43
Net Service Fee Income	7,840,059	17.35
Gains on Financial Assets and Liabilities at Fair Value through Profit or Loss	3,009,229	6.66
Realized Gains on Available-for-Sale Financial Assets	1,596,716	3.53
Realized Loss on Held-to-Maturity Financial Assets	-189	-
Foreign Exchange Gain	2,046,115	4.53
Loss on Asset Impairment	-334,397	-0.74
Investment Income Recognized by the Equity Method	451,001	1.00
Net Other Non-interest Income	227,825	0.50
Gain on Financial Assets Carried at Cost	803,272	1.78
Net other miscellaneous loss	-5,504,048	-12.18
<b>NET OPERATING INCOME</b>	<b>45,180,643</b>	<b>100.00</b>

## **Taiwanese Banking Industry & Market Overview**

Due to the competitiveness of domestic market, the trend of globalization and the drop in transaction cost, expanding overseas market, especially Southeast Asian emerging markets, becomes an important business strategy for domestic banks.

Domestic banks' interest rate spread continues to shrink due to the unfavorable circumstances and reduction of interest rate by the Central Bank of China (Taiwan), thereby eroding overall profit performance. Also, because of an increase in provision for bad debts, housing loans and China market loan exposure, net pretax profit for domestic banks in 2016 continued to drop for a second year to NT\$300.06 billion, a reduction of 6.11% from 2015. In terms of asset quality, as of the end of December 2016, domestic banks' non-performing loan ratio increased slightly from last year-end's 0.23% to 0.27%, while coverage ratio of allowances for bad debt dropped from 555.43% to 502.93%.

As a result of inflow of foreign capital, continuous increase of foreign currency deposits, conservative corporate investment, and a depressed real estate market, domestic banks' deposit growth rate exceeded that of loans for four consecutive years, increasing pressure on funds application efficiency. Hence, most domestic banks adjusted their business structure and promoted their wealth management business.

In recent years, domestic banks have been setting up overseas offices, with merging and acquisition extending, not only in China, but also in Philippines, Indonesia, Japan, South Korea, etc. Overseas offices with poor performance were dissolved so that capital can be invested in markets with potential, to boost overseas operations performance.

Because of competitive pressure from technology sectors, banks have been aware of the need for fast changes in the traditional operating pattern. In the past two years, they have actively upgraded their software and hardware and increased staff training, which will facilitate bank transformation and business volume growth in FinTech services.

In 2016, many risk control deficiencies were noted in the financial industry which prompted the Financial Supervisory Commission to adopt a series of regulatory amendments and response measures. Banks were required to strengthen regulatory compliance of anti-money laundering and internal control system, and actively fortify a sound management system.

### **I. Positive Factors**

- Since the outlook of economy in 2017 is optimistic, private consumption and investment are expected to warm up, which will facilitate domestic banks' loan and wealth management business so as to increase their profitability.
- In line with the government's promotion of “New Southbound Policy”, domestic banks successively expanded international business and overseas markets. The competent authority also continues to ease regulations and to encourage domestic banks granting of loans to key innovative industries. This will help domestic banks promote loan business, and thus increase their competitiveness and profitability.
- In September 2016, the Financial Supervisory Commission launched a FinTech development project, “Pilot Program”, allowing banks to initiate FinTech products with conditions for a trial period before relevant regulations amended. This will help the banks to accelerate their development of the FinTech market.
- To support domestic economic growth, the government actively promotes “Investment Expansion Programs” and “five-plus-two” innovative industries to optimize domestic investment environment, stimulate private investment, and strengthen state-owned investment, and thereby driving development of banking industry.

## II. Negative Factors

- The real estate market continues to be sluggish and developers are more conservative in launching new projects, which will affect domestic bank's loan business. Also, following the TRF dispute, the related escrow is expected to increase significantly, which is not favorable for surplus.
- With increase of online transactions, the finance industry suffers higher and more frequent loss due to information security risk and continuous threats from cyber hackers. Information security problems and consumer rights protection also pose big challenges to banks.
- With stricter regulatory compliance required by international financial supervisory institutions, the cost of domestic bank's legal compliance may raise significantly.

## III. Winning Strategies

- To improve information security, the Bank shall recruit qualified personnel from IT industry and increase the frequency and depth of internal training programs.
- To enrich fee income, the Bank shall continue strengthen its wealth management business by diversifying its consumer banking product to fulfill customers' needs.
- To ensure the operating results, the Bank shall strengthen the internal audit and internal control scheme, pay close attention to uncertainties in financial markets, and catch up with most recent regulations.

## IV. Mega Bank's Niche

- Mega Bank owns expansive global presence, and international banking expertise, enhancing the bank's diversification and profitability.
- Mega Bank maintains the highest foreign deposit balance among domestic banks ever since.

## **Business Plan**

- The Bank will enhance training on anti-money laundering/counter-terrorism financing and BSA/OFAC regulations of the United States to build a culture of legal compliance within the Bank.
- Head Office will strengthen the management mechanism for the Bank's overseas branches and subsidiaries to increase its effectiveness and efficiency.
- To response to the Government's policy of "Digital Nation and Innovative Economy", the Bank will increase the exposure to industries in "five plus two industries list".
- The Bank will engage R&D and innovation of communication technology applications in financial services to build up the Bank's capability to provide digital financial services.
- The Bank will increase investment in high-quality bond to generate stable fixed income, and enlarge high-liquidity asset to compliant with regulatory requirement for LCR.
- The Bank will diversify wealth management product line to satisfy different target groups, especially the young adults and high-net-worth customers.

## **Human Resources Profile**

Item		As of December 31,	
		2016	2015
Number of Employees	Domestic	4,939	4,914
	Overseas	604	564
	Total	5,543	5,478
Average Age		42.65	42.91
Average Years of Services		16.69	17.01
Education	Ph.D.	4	3
	Master's Degree	1,240	1,149
	Bachelor's Degree	4,039	4,045
	Senior High School	236	255
	Below Senior High School	24	26

## **Social Responsibility**

Fulfilling corporate social responsibility is one of the Bank's core values. The Bank participates in various public welfare activities and establishes many environmental protection mechanisms such as paperless documentation system, garbage classification and recycling, water conservation and energy efficiency measures, etc.

Furthermore, the Bank founded Mega International Commercial Bank Cultural and Educational Foundation (formerly The International Commercial Bank of China Cultural and Educational Foundation) in 1992 to undertake cultural and educational matters and take care of underprivileged population. The sponsored activities in 2016 include: music and art performances; indigenous children's art, language education and publishing of the illustrated books, etc.

**Credit Risk Management System**

**Year 2016**

Item	Content
<p>A. Credit Risk Strategies, Goals, Policies, and Procedures</p>	<ol style="list-style-type: none"> <li>1. When developing the Bank’s credit and investment businesses, besides complying with the relevant laws and regulations such as the Banking Act of the Republic of China, the business supervisory units shall set risk management targets (capital adequacy ratio, non-performing loans ratio, NPL coverage ratio, etc.), and the Risk Management Department compiles and submits reports to the Bank's Risk Management Committee, Mega Financial Holding Company Risk Management Committee and the Bank's Board of Directors for approval. The Bank also sets its risk appetite by establishing various credit and investment regulations, maintaining a sound credit risk management framework and standard.</li> <li>2. In response to the implementation of New Basel Capital Accord, the Bank is gradually developing models and evaluation mechanisms for estimating various credit risk component, such as implementation of internal rating system linked to probability of default (PD), to predict customer's PD with quantitative analysis tools, etc., so as to strengthen the existing credit rating system of credit analysis procedures, and thereby enhance the management efficiency of credit risk.</li> <li>3. Before engaging in credit and investment businesses, the Bank shall ensure thorough credit investigation and review with clear authorization limits by a hierarchical delegation framework to enhance service efficiency and shorten operating processes. Regular review is also conducted by establishing a reporting mechanism to report irregular or emergent incidents within the stipulated time.</li> <li>4. The Overdue Loan &amp; Control Department is in charge of non-performing/non-accrual loans management. Proper guidelines, rules and procedures have been set to ensure effective monitoring and collection of NPLs.</li> </ol>
<p>B. Organization of Credit Risk Management</p>	<ol style="list-style-type: none"> <li>1. The Board of Directors has the ultimate responsibility for the Bank’s credit risk management, in charge of approval of entire Bank's credit risk policies, framework, strategies/goals and important credit risk management regulations of the Bank. The Risk Management Committee is delegated by the Board of Directors and is convened by Chairman of the Board with the responsibility to review and discuss risk management policies, regulations, etc.</li> <li>2. The Loan Committee and Investment Committee are in charge of reviewing credit and investment cases, related policies and implementation status in this regard. The Problem Loan Committee manages problem loans and debt collection, and reviews related policies of non-performing/non-accrual loans.</li> <li>3. Each Head Office department in charge of credit risk shall, according to their duties, implement credit risk management procedures such as identification, measurement, monitoring, reporting, etc., and continue to enhance risk management mechanism.</li> <li>4. The Risk Management Department shall coordinate and supervise the various units in establishing the credit risk management mechanism, and gradually develop tools such as internal rating system to enhance credit risk management, and submits risk management report to the Board of Directors and Mega Financial Holding Company regularly.</li> </ol>
<p>C. Scope and Characteristics of the Credit Risk, Reporting and Measuring System</p>	<ol style="list-style-type: none"> <li>1. The Bank's credit risk management objectives are set annually using a bottom-up method, and are submitted to the Board of Directors for approval. The implementation progress and status are evaluated regularly according to economic conditions, the Bank's financial status and risk exposure, etc., so as to strengthen the Bank's overall risk management. Meanwhile, in accordance with the regulations of the competent authority, related credit risk information is disclosed on the Bank's website.</li> <li>2. To control the same concerned party (groups of related counterparties), industries, country risk, etc., and prevent over-concentration of risk, the Bank has set various credit and</li> </ol>



Item	Content
	<p>investment limits for the same concerned party (groups of related counterparties), industries, etc., according to economic performance, industry outlook and credit risk level, and reports to the senior management regularly on the implementation status and compliance status of the laws and regulations, such as the Banking Act of the Republic of China, and internal credit and investment related regulations of the Bank.</p> <ol style="list-style-type: none"> <li>3. Conducts regular credit review to better understand customers, increases the frequency of review for loan customers with high and abnormal credit risk, and reports the review status to the senior management after annual analysis and review.</li> <li>4. Visits the invested enterprises at least once per year, and takes note of their operation, capital flow and execution of business plan, helps solve various problems, analyzes the operations, and reports to the Board of Managing Directors.</li> <li>5. Irregularity reporting system: if loan or investment customers encounter irregular operation, financial difficulty or other unexpected material incident that would affect the company's operation, the business unit shall immediately report to the senior management through the departments in charge, and to Mega Financial Holding Company through the Risk Management Department, so that related information can be relayed and necessary measures carried out immediately.</li> <li>6. Asset evaluation: for the various credit assets, investments, other assets and contingent assets, business supervisory units shall base on the Bank's historical loss experience on bad debts write-off, provision, bad debt recovery, etc., current non-performing loans ratio, collection status and the competent authority's regulations, generally accepted accounting principles, etc., to evaluate the possible loss and provide for bad debts or cumulative impairment.</li> </ol>
<p>D. Credit Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments</p>	<p>Through prudent credit investigation and review mechanism with fully understanding of customers' financial and operation status, the following countermeasures are adopted:</p> <ol style="list-style-type: none"> <li>1. When the probability of loss occurrence of loans or transactions is high, and the severity of expected losses is significant, e.g. a newly incorporated company with low credit rating and with credit risk higher than profit, the Bank does not undertake such business.</li> <li>2. When the probability of loss occurrence of loans or transactions is low, but the severity of expected losses is high, such business can be undertaken by self-liquidating trade finance, account receivable finance, etc., and strengthen foreign exchange transactions, and manage cash flow to further reduce risk. Major credit exposures, housing loans, etc., may be undertaken by requesting for collateral or guarantor, or through a syndicated loan, or selling off part of positions in the secondary market after undertaking, or engaging in debt securitization, so as to reduce or transfer risk.</li> <li>3. When the probability of loss occurrence of loans or transactions is high, but the severity of expected losses is minor, the Bank shall sign agreements with the clauses such as financial or non-financial covenants and prohibition on sale of assets or mortgage so as to control the credit risk of the borrower or counterparty.</li> <li>4. When the probability of loss occurrence of loans or transactions is low, and the severity of expected losses is minor, the Bank shall undertake such business if upon assessment, the profit is higher than risk borne.</li> <li>5. For collaterals such as securities, real estates, etc., the Bank regularly monitor loan-to-value ratios for each case. For guarantors' creditworthiness, the Bank monitor through measures such as credit review to ensure the effectiveness of risk mitigation tools.</li> </ol>
<p>E. Method of Legal Capital Allocation</p>	<ol style="list-style-type: none"> <li>1. The Bank currently adopts the Standardized Approach for credit risk regulatory capital charge.</li> <li>2. In order to quantify risk so as to effectively measure risk and enhance management, the Bank has progressively developed various credit rating models, introduced aforementioned models linked to probability of default into credit investigation process, and gradually developing a system complied with the credit risk Internal Ratings-Based Approach under the New Basel Capital Accord.</li> </ol>

## Operational Risk Management System

Year 2016

Item	Content
A. Operational Risk Management Strategies and Procedures	<ol style="list-style-type: none"> <li>1. Strategies <ul style="list-style-type: none"> <li>■ Establish an effective framework and formulate internal control procedures for each level.</li> <li>■ Enhance employee training in laws, regulations and business.</li> <li>■ Strengthen control of operating procedures.</li> <li>■ Implement internal and external audit and supervision measures to reduce the entire bank's operational risk loss.</li> </ul> </li> <li>2. Procedures <ul style="list-style-type: none"> <li>■ Conduct risk identification and assessment, suitability analysis and planning of information system, before launching new products or businesses or establishing new overseas branches, and hold a review council, in accordance with the Bank's "Operating Guidelines for Establishing New Business, New Products and Overseas Branches".</li> <li>■ Formulate business management regulations, operational specifications, and establish them in the computer system to allow staff to inquire timely and to comply with, when performing their duties.</li> <li>■ Conduct self-assessment of operational risk to identify and measure the degree of operational risk exposure, strengthen risk management awareness, and improve current control mechanism.</li> <li>■ Conduct self-reviews to understand the implementation of various business control mechanism, and rectify the deficiencies immediately.</li> <li>■ Submit and compile operational risk loss incidents based on the 8 major industry types and 7 major loss incident types stipulated in Basel II, and conduct reviews on the factors of occurrence of the loss and improve them.</li> <li>■ Establish key indicators for operational risk to monitor potential risk, and apply appropriate management measures where necessary.</li> </ul> </li> </ol>
B. Organization of Operational Risk Management	<ol style="list-style-type: none"> <li>1. Board of Directors: approve operational risk management policies.</li> <li>2. Auditing Department: conduct regular reviews on the effectiveness of operational risk management mechanism to each unit.</li> <li>3. Risk Management Department: formulate operational risk management policies and concrete targets, design and implement operational risk assessment and management mechanism, summarize and submit reports on the operational risk loss regularly.</li> <li>4. Head Office's business supervisory units: identify operational risk, formulate respective business management regulations and operational specification, as well as establish control mechanism.</li> <li>5. All units of the Bank: perform various operations according to the various control mechanisms, conduct regular self-reviews and self-assessment of operational risk, and submit reports on loss incidents.</li> </ol>
C. Scope and Characteristics of the Operational Risk Reporting and Measurement System	<ol style="list-style-type: none"> <li>1. The Bank submits a report to the Board of Directors regularly on the results of self-assessment of operational risk, occurrence of operational risk loss incidents, implementation of regulatory compliance system, and audit and self-review status.</li> <li>2. The Bank's reporting on operational risk loss incidents, the implementation of law compliance system and the performance of audit system apply to each unit of the Bank. Self-review system is conducted by General Affairs and Occupational Safety &amp; Health Department, Data Processing &amp; Information Department, all business units and subsidiary banks.</li> </ol>

Item	Content
	<ol style="list-style-type: none"> <li>3. When deficiencies are discovered, the units shall review and improve immediately, and make regular reports to Head Office.</li> <li>4. The Bank's business units and General Affairs and Occupational Safety &amp; Health Department, Controller's Department, Data Processing &amp; Information Department, Overdue Loan &amp; Control Department, Risk Management Department, Digital Banking Department, Operation Center, Anti-Money Laundering Center, Regional Business Centers, etc., conduct annual operational risk self-assessment to measure the Bank's operational risk exposure and, based on the recommendations from the various units, validate the improvement of the existing control mechanism for preventing the occurrence of operational risk.</li> </ol>
D. Operational Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	<ol style="list-style-type: none"> <li>1. The Bank transfers the possible operational risk loss from the Bank's employees, financial affairs and equipment through insuring on banker's blanket bond insurance, fire insurance, earthquake insurance, third-party liability insurance, group personal accident insurance, etc.,. The Bank also reviews and renews annually to maintain the effectiveness of risk transfer.</li> <li>2. The contract that the Bank signs with contractors for outsourced operations shall specify the scope of outsourced operations and the relevant regulations so as to clarify the attributions of responsibilities and transfer possible operational risk. Also, regular evaluations are conducted on the contractors for outsourced operations to ensure that the outsourced operations are in compliance with the relevant regulations of the competent authority.</li> </ol>
E. Method of Legal Capital Allocation	The Bank currently adopts the Basic Indicator Approach (BIA) for operational risk regulatory capital charge.

## **Market Risk Management System**

**Year 2016**

Item	Content
A. Market Risk Management Strategies and Procedures	<ol style="list-style-type: none"> <li>1. Strategies: <ul style="list-style-type: none"> <li>■ According to the risk management objectives and risk limits approved by the Board of Directors, supervise the entire bank's market risk position and tolerable loss.</li> <li>■ According to the Bank's "Market Risk Management Guidelines" and other relevant regulations, implement market risk management in order to attain operational objectives and maintain a healthy capital adequacy ratio.</li> <li>■ Establish market risk information system to enable effective monitoring of limit management, profit and loss assessment, sensitivity factor analysis, execution of stress test, etc., of the financial products' position, and compile a risk report to be submitted to the head for review and use as reference for decision-making.</li> </ul> </li> <li>2. Procedures: <p>Set different types of risk management rules for financial products based on their different business natures and include the process for risk identification, measurement, monitoring and reporting into the regulations. The Risk Management Department monitors the compliance status of the transaction unit.</p> <ul style="list-style-type: none"> <li>■ Daily transactions: Prepare daily market risk position and income statement, compile and analyze domestic and overseas transaction unit data, summarize and analyze various financial products' position, assess profit and loss, sensitivity risk factor analysis, and submit monthly stress test results to enable the top management to understand the entire bank's market risk exposure; and compile regular securities investment performance evaluation and submit to the Board of Directors to enable the board to understand the risk control of the Bank's securities investments.</li> </ul> </li> </ol>

Item	Content
	<ul style="list-style-type: none"> <li>■ Exception management: Each transaction has limits and stop-loss rules. If the transaction reaches the stop-loss limit, action shall be taken immediately. If stop-loss is not executed, the transaction unit shall state the reason for not executing stop-loss and the contingency plan, submit to top management for approval, and report to the (Managing) Board of Directors based on the type of financial products.</li> </ul>
B. Organization of Market Risk Management	<ol style="list-style-type: none"> <li>1. The Board of Directors is the Bank's highest supervisory unit for market risk, in charge of the approval of risk strategies and various risk limits, and of the Risk Management Committee which supervises market risk.</li> <li>2. Conduct Risk Management Committee council regularly, and the Risk Management Department shall submit a report on the management of the Bank's various financial products position for reference by the committee. Besides submitting report on the Bank's management status such as market risk and liquidity risk, the business supervising unit shall submit a special report on the current period's major extraordinary event.</li> <li>3. Risk Management Department is in charge of the planning of the Bank's market risk management and supervises the Bank's various business departments in establishing risk control mechanism. It compiles and analyzes data such as position, assesses the profit and loss, sensitivity risk factor analysis and stress test of various financial products regularly, and reports to the supervisory top management and Mega Financial Holding Company.</li> <li>4. Stress test is conducted on market risk factor changes on a monthly basis. Also, the Risk Management Department shall, according to market conditions, set the stress scenario every half a year and submit this to the top management for approval for execution of the stress test. The results are then submitted to the top management for review, and then to the competent authority according to the regulations of the competent authority.</li> <li>5. Risk Management Department compiles and submits information on the operation of securities investments and derivative financial products to the (Managing) Board of Directors regularly to enable them to understand the Bank's market risk management status.</li> <li>6. Treasury Department is in charge of capital movement and investments in securities, foreign currency and derivative financial products.</li> </ol>
C. Scope and Characteristics of Market Risk Reporting and Measurement	<ol style="list-style-type: none"> <li>1. The content of the Bank's market risk report includes exchange rate, interest rate, as well as the position, profit and loss assessment and sensitivity factor analysis of financial products such as equity securities, credit default swap, etc.</li> <li>2. The domestic transaction units shall submit the financial products' positions and gain or loss to the management on a daily basis. When positions are near to stop-loss alert indicator, close monitoring of market changes will be carried out.</li> <li>3. The risk management unit conducts monthly stress test and submits reports to the Risk Management Committee meetings regularly.</li> <li>4. For non-hedging transactions of derivative financial products, the risk is assessed based on daily market price; for hedging transactions, the risk is assessed twice per month.</li> <li>5. When stop-loss limits for loss assessment of securities such as shares, mutual funds, bonds, etc. and derivative financial products are reached, stop-loss shall be executed immediately. The transaction unit shall state the reasons for not executing stop-loss and the response measures, and submit to the top management for approval. When these products exceeded a certain amount of loss, such incident shall be reported to the (Managing) Board of Directors based on the type of financial product.</li> </ol>

Item	Content
D. Market Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	<ol style="list-style-type: none"> <li>1. The Bank's hedging strategy is to make use of spot or derivative financial products as a hedging tool to avoid market price risk. For hedged financial products and its hedging tool, the Bank regularly assesses the overall hedging and whether the hedged item's position and profit and loss is within the tolerable range, as well as the appropriateness of the current risk management measures used.</li> <li>2. If the assessed risk is too high, the risk exposure will be reduced, or other approved hedging methods adopted to transfer risk, so that the risk is reduced to a tolerable range.</li> </ol>
E. Method of Legal Capital Allocation	<ol style="list-style-type: none"> <li>1. The Bank adopts the Standardized Approach for market risk capital charge.</li> <li>2. In terms of risk management, SUMMIT Market Risk Information System provides limit management, profit and loss assessment, sensitivity factor analysis, stress test and risk value calculation. The Bank is gradually managing market risk through information generated from SUMMIT. In the future, it shall decide whether to adopt Internal Models Approach for capital charge based on business requirements and complexity of the financial products.</li> </ol>

## **Liquidity Risk Management System**

**Year 2016**

Item	Content
A. Liquidity Risk Management Strategies and Procedures	<ol style="list-style-type: none"> <li>1. Strategies: <ul style="list-style-type: none"> <li>■ Monitor the Bank's overall liquidity risk limit according to the risk management objectives approved by the Board of Directors.</li> <li>■ According to the regulations of the Bank's "Liquidity Risk Management Guidelines" and "Operating Guidelines for Liquidity Risk Management", implement liquidity risk management to ensure the Bank's payment ability.</li> <li>■ Conduct stress test regularly to ensure that when the Bank's internal operation or external financial environment suffers severe impact, under any circumstance whether at present or in the future, the Bank's liquid funds are sufficient to meet asset increase requirements or fulfill due obligations, so that the Bank can attain sustainable operation.</li> </ul> </li> <li>2. Process: <ul style="list-style-type: none"> <li>■ According to the Bank's "Liquidity Risk Management Guidelines" and "Operating Guidelines for Liquidity Risk Management", Treasury Department shall control the intraday liquidity position and risk of domestic units' TWD and foreign currencies on a daily basis. According to the regulations of the Central Bank of the Republic of China (Taiwan), deposit reserve shall be set aside and liquid reserves maintained, and liquidity gap adjusted based on daily capital flow and changes in market conditions, to ensure an appropriate liquidity. Overseas branches shall comply with the regulations of the competent authorities from both its home country and the country it is located, and possess appropriate liquid assets to maintain sufficient liquidity.</li> <li>■ Risk Management Department monitors liquidity coverage ratio, currency liquidity gap ratio and liquidity reserve ratio of TWD and foreign currencies with liabilities more than 5% of total liabilities, inspects regulatory compliance regularly, and reports to the Fund Management Committee, Risk Management Committee and the Board of Directors.</li> </ul> </li> </ol>

Item	Content
	<ul style="list-style-type: none"> <li>■ Risk Management Department sets stress scenario for specific event crisis for individual organizations or overall market environmental crisis. When setting stress scenarios, it takes into consideration the impact on intraday liquidity position due to liquidity risks, collateral multiplier effect, and breach of contract by customer or counterparty due to liquidity shortage. Stress tests shall be conducted regularly, and the results submitted to the Fund Management Committee, Asset &amp; Liability Management Committee and the Board of Directors.</li> </ul>
B. Organization of Liquidity Risk Management	<ol style="list-style-type: none"> <li>1. The Board of Directors is the Bank's highest supervisory unit for liquidity risk, and is in charge of the approval of risk strategies and limits.</li> <li>2. Treasury Department is the executive unit for managing liquidity risk.</li> <li>3. Risk Management Department is the supervisory unit in charge of monitoring various risk limits and conducting regular examination of the appropriateness of execution process by the executing unit. It reports to the Fund Management Committee, Asset &amp; Liability Management Committee and the Board of Directors regularly on liquidity risk monitoring.</li> </ol>
C. Scope and Characteristics of Liquidity Risk Reporting and Measurement	<ol style="list-style-type: none"> <li>1. The main purpose of the Bank's liquidity risk report is to estimate the impact of various businesses' future cash flow on the Bank's capital movement, and control the cash flow gap or ratio under a tolerable risk limit.</li> <li>2. When the liquidity indicator reaches an alert level, the Risk Management Department shall immediately report to the Chairman of the Fund Management Committee, and report at the meeting of the Fund Management Committee. When the level for activating contingency plan is reached, it shall immediately request the Chairman of the Fund Management Committee to convene a special meeting to review the liquidity contingency plan and implement it upon approval by the President. Upon approval of the plan, the Treasury Department shall immediately implement liquidity contingency plan and the Risk Management Department shall request overseas branches to cooperate according to the plan, so as to fill the funding gap.</li> <li>3. The Bank conducts stress test regularly and analyzes test results from the perspective of cash flow, liquidity position, repayment ability, etc. If the test results are not up to expectation, and if the liquidity gap is mild, adjust the fund structure as a response measure within stipulated time. In case of high liquidity gap or difficulty in raising short-term funds in the market, activate fund emergency contingency plan to reduce the impact of liquidity risk.</li> </ol>
D. Liquidity Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	<p>In response to liquidity crisis such as abnormal deposit withdrawal, huge drain of funds, other serious shortage of liquidity, etc., the Bank has established liquidity emergency contingency plan to fill the funding gap and reduce liquidity risk so as to maintain normal operation of the entire Bank.</p>

**Condensed Consolidated Balance Sheets**

Unit: Thousands in NT dollars

Item	As of December 31,	
	2016	2015
Cash and Cash Equivalents, and Due from the Central Bank and Call Loans to Banks	630,438,288	651,059,726
Financial Assets at Fair Value through Profit or Loss	45,316,653	47,028,384
Available-for-Sale Financial Assets – net	205,720,937	231,507,094
Securities Purchased under Resale Agreements	4,255,968	9,435,869
Receivables – net	59,425,191	142,521,355
Current Tax Assets	122,108	589,811
Bills Discounted and Loans – net	1,715,278,766	1,773,269,054
Held-to-Maturity Financial Assets – net	279,291,168	199,528,540
Investments Accounted for under the Equity Method – net	3,033,753	2,899,633
Other Financial Assets – net	9,670,797	9,985,074
Property and Equipment – net	14,322,434	14,278,590
Investment Property – net	865,039	868,057
Deferred Tax Assets	5,088,804	4,353,210
Other Assets – net	1,621,685	1,443,326
<b>Total Assets</b>	<b>2,974,451,591</b>	<b>3,088,767,723</b>
Due to the Central Bank and Commercial Banks	386,017,007	419,876,839
Borrowed Funds	39,974,427	45,459,094
Financial Liabilities at Fair Value through Profit or Loss	11,394,240	21,939,295
Securities Sold under Repurchase Agreements	444,678	547,798
Payables	32,149,539	35,948,937
Current Tax Liabilities	8,134,367	8,333,393
Deposits and Remittances	2,173,615,665	2,235,241,655
Financial Bonds Payable	36,200,000	36,200,000
Other Financial Liabilities	8,583,989	8,673,223
Provisions	12,953,433	11,923,424
Deferred Tax Liabilities	2,161,652	2,153,957
Other Liabilities	5,258,347	8,977,157
<b>Total Liabilities</b>	<b>2,716,887,344</b>	<b>2,835,274,772</b>
Equity Attributable to Owners of The Parent Company	257,564,247	253,492,951
Capital Stock	85,362,336	85,362,336
Capital Reserve	62,219,540	62,219,540
Retained Earnings	111,444,170	105,682,059
Other Equity	-1,461,799	229,016
<b>Total Equity</b>	<b>257,564,247</b>	<b>253,492,951</b>

## Condensed Consolidated Statements of Comprehensive Income

Unit: Thousands in NT dollars

Item	2016	2015
Interest Revenue	50,877,951	53,879,273
Less: Interest Expense	15,294,311	17,833,323
Net Interest Income	35,583,640	36,045,950
Net Non-Interest Income	10,051,088	14,195,272
Net Operating Income	45,634,728	50,241,222
(Provision) reversal for loan losses and guarantee reserve	3,619,823	-543,892
Operating Expenses	18,899,537	20,464,905
Consolidated Income from Continuing Operations Before Income Tax	23,115,368	30,320,209
Income Tax Expense	4,105,407	4,611,764
Consolidated Net Income	19,009,961	25,708,445
Total Other Comprehensive Loss (after Income Tax)	-2,134,315	-3,721,805
Total Comprehensive Income	16,875,646	21,986,640

## Major Financial Analysis

Item		Consolidated		Standalone	
		2016	2015	2016	2015
Financial Structure	Total Liabilities to Total Assets (%)	91.22	91.69	91.17	91.64
	Property and Equipment to Total Shareholders' Equity (%)	5.56	5.63	5.54	5.61
Solvency	Liquidity Reserve Ratio (%)	27.11	22.66	27.11	22.66
Operating Performance Analysis	Loans to Deposits Ratio (%)	80.38	80.71	80.16	80.42
	NPL Ratio (%)	0.11	0.09	0.09	0.08
	Total Assets Turnover (Number of Times)	0.02	0.02	0.01	0.02
	Average Profit per Employee (Thousands in NT dollars)	3,316	4,553	3,418	4,693
Profitability Analysis	Return on Tier 1 Capital (%)	9.36	13.41	9.44	13.56
	ROA (%)	0.63	0.85	0.63	0.85
	ROE (%)	7.44	10.89	7.44	10.89
	Net Income to Net Operating Income (%)	41.66	51.17	42.08	51.61
	Earnings per Share (NT dollars)	2.23	3.27	2.23	3.27
	Cash Dividends per Share (NT dollars)	1.50	1.50	1.50	1.50
	Shareholders' Equity per Share Before Appropriation (NT dollars)	30.17	29.70	30.17	29.70
Capital Adequacy Ratio (%)		14.49	13.33	14.32	13.16

Note : The 2016 earnings distribution will be resolved in the 2017 Board of Directors on the stockholders' behalf.





## REPORT OF INDEPENDENT ACCOUNTANTS TRANSLATED FROM CHINESE

To the Board of Directors and Shareholders of Mega International Commercial Bank Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated balance sheets of Mega International Commercial Bank Co., Ltd. (the “Bank”) and its subsidiaries as at December 31, 2016 and 2015, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks” and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

### **Basis for opinion**

We conducted our audits in accordance with the “Rules Governing the Audit of Financial Statements of Financial Institution by Certified Public Accountants” and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank and its subsidiaries in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **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, we do not provide a separate opinion on these matters.

The Bank and its subsidiaries’ key audit matters for the year ended December 31, 2016 are addressed as follows:

### **Impairment assessment of bills discounted and loans**

#### Description

For the accounting policy for the impairment assessment of bills discounted and loans, please refer to Note 4(9) of the consolidated financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of impairment assessment of bills discounted and loans, please refer to Note 5(2) of the consolidated financial statements; for the details of bills discounted and loans, please refer to Note 6(5) of the consolidated financial statements. Gross bills discounted and loans and allowance for bad debts as at December 31, 2016, was \$1,741,972,998 thousand and \$26,694,232 thousand, respectively.

The credit services provided by the Bank and its subsidiaries, which are their main business activity, are primarily corporate credit facilitations. Impairment losses on bills discounted and loans are losses as a result of existing objective evidence of impairment that estimated future cash flows of loans may not be recovered. The Bank and its subsidiaries' impairment assessment on bills discounted and loans is conducted in accordance with related regulations of IAS 39, 'Financial Instruments: Recognition and Measurement' and meet the related requirements of the competent authority. If there is existing objective evidence of impairment loss for significant credit facilitations which exceed a certain amount, then such facilitations are individually assessed. Impairment loss is primarily provisioned according to the future cash flows and collateral value of the borrower; if there is no existing objective evidence of impairment or if there is existing objective evidence of impairment but the credit facilitation does not exceed a certain amount, then assessment is conducted on a collective basis and impairment losses are estimated according to impairment parameters such as the impairment probability, recovery rate, and effective interest rate under each industry group.

The aforementioned provision of impairment loss for bills discounted and loans includes the determination of future cash flows of individual assessment and impairment parameters for collective assessment. Because this involves subjective judgment and numerous assumptions and estimates, the method of determining assumptions and estimates will directly affect the related recognized amounts. Also, considering that loans account for approximately 58% of total assets, we have thus included the individual and collective impairment assessment of the Bank and its subsidiaries' bills discounted and loans as one of the key audit matters in our audit.

#### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Understood and assessed the related policies, internal control system, and operation procedures of assumptions and estimates (including the impairment probability, recovery rate, future cash flows, and collateral value) used by the Bank and its subsidiaries in provisioning impairment losses for bills discounted and loans.
2. Sampled and tested internal controls related to the provision of impairment loss, including the identification of objective evidence for impairment loss, annual reviews, management of collateral and their value assessment, value assessment of collateral, controls for changing impairment parameters, and approval for provisioning of impairment loss.
3. Collective assessment
  - (1) Evaluated the model parameter assumptions of the Bank and its subsidiaries' collective assessments; understood the calculation logic of different group parameters (e.g. the impairment probability, recovery rate, and effective interest rate), as well as the status of periodic updates.
  - (2) Sampled and tested the accuracy of impairment loss balances.
  - (3) Filtered loan portfolio amounts of corporate facilitations under loans accounts using the system logic which incorporated the Bank's policy to sample and test the accuracy of their respective impairment probability, recovery rate, and effective interest rates, as well as to examine their consistency with the financial statements.
4. Individual assessment (for credit facilitations with existing objective evidence of impairment loss that exceeded a certain amount)
  - (1) Assessed the completeness of the watch list for credit facilitations for which objective evidence is existed.
  - (2) Sampled and compared the consistency of the system's judgment with samples which had been judged to have objective evidence of impairment.
  - (3) Assessed the reasonableness of parameter assumptions (including the borrower's time of past due, financial and operational status, and historical experience) for estimated future cash flows and the accuracy of calculation results for estimated future cash flows.

## Impairment assessment of equity investments carried at cost

### Description

For the accounting policy for the impairment assessment of equity investment carried at cost (accounted under other financial assets), please refer to Note 4(9) of the consolidated financial statements; for critical accounting judgments, estimates, and key sources of assumption uncertainty of equity investments carried at cost, please refer to Note 5(3) of the consolidated financial statements; for detail of other financial assets-equity investments carried at cost, please refer to Note 6(9) of the consolidated financial statements. Other financial assets-equity investments carried at cost and its accumulated impairment as at December 31, 2016, was \$10,692,246 thousand and \$1,040,931 thousand, respectively.

For the provision of impairment for other financial assets-equity investments carried at cost accounted for by the Bank and its subsidiaries, in accordance with the Bank and its subsidiaries' accounting policy, upon the end of each reporting period, the Bank and its subsidiaries shall estimate impairment losses when it is assessed that there is objective evidence of impairment. When individual equity investments have existing objective evidence of impairment loss, provision of impairment loss is determined by the recoverable amount of cash flows based on the financial and operating status.

Because the aforementioned determination on whether there is existing objective evidence of impairment for equity investments carried at cost and the provision of impairment (including the determination of recoverable cash flows) involve subjective judgment and numerous assumptions and estimates, the method of determining assumptions and estimates will directly affect recognized amounts. Thus, we have included the impairment assessment of the Bank and its subsidiaries' equity investments carried at cost as one of the key audit matters in our audit.

### How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarized as follows:

1. Understood and assessed the Bank and its subsidiaries' related policies, stop-loss and exception management controls, and handling procedures for determining impairment evidence and the provision of impairment for equity investments measured at cost.
2. Sampled and tested the evaluations provided by management to determine whether there are documents that support the existence of impairment evidence.
3. Sampled and tested the appropriateness of management's estimate future cash flows (e.g. documents related expected recoverable cash flows of investees) and recalculated the accuracy of provisioned impairment amounts.

### ***Other matter – Parent company only financial report***

We have audited and expressed an unmodified opinion on the parent company only financial statements as at and for the years ended December 31, 2016 and 2015, prepared by the Bank.

### ***Responsibilities of management and those charged with governance for the consolidated financial statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks" and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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

Those charged with governance are responsible for overseeing the Bank and its subsidiaries' financial reporting process.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ROC GAAS 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 ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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



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

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

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

The consolidated financial statements as at and for the year ended December 31, 2016 expressed in US dollars were translated from the New Taiwan dollar consolidated financial statements using the exchange rate of US\$1:NT\$32.206 at December 31, 2016 solely for the convenience of the readers. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

Chi, Shu-Mei

For and on behalf of PricewaterhouseCoopers, Taiwan  
March 24, 2017

Chou, Chien-Hung

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

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**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

Assets	Notes	December 31, 2016		December 31, 2015	January 1, 2015
		NT\$	US\$ (Unaudited-Note 4)	NT\$	NT\$
<b>Assets</b>					
Cash and cash equivalents	6(1) and 11(3)	\$ 90,426,546	\$ 2,807,755	\$ 145,026,871	\$ 164,407,531
Due from the Central Bank and call loans to banks	6(2) and 11(3)	540,011,742	16,767,427	506,032,855	469,483,866
Financial assets at fair value through profit or loss	6(3)	45,316,653	1,407,087	47,028,384	43,697,047
Securities purchased under resale agreements	11(3) and 13	4,255,968	132,148	9,435,869	5,850,332
Receivables, net	6(4)(5)	59,425,191	1,845,159	142,521,355	171,053,943
Current tax assets	6(36)	122,108	3,791	589,811	522,877
Bills discounted and loans, net	6(5) and 11(3)	1,715,278,766	53,259,603	1,773,269,054	1,733,994,271
Available-for-sale financial assets, net	6(6) and 12	205,720,937	6,387,659	231,507,094	187,345,276
Held-to-maturity financial assets, net	6(7) and 12	279,291,168	8,672,023	199,528,540	161,795,040
Investments accounted for under the equity method, net	6(8)	3,033,753	94,198	2,899,633	2,835,086
Other financial assets, net	6(5)(9)	9,670,797	300,279	9,985,074	13,650,563
Property and equipment, net	6(10)	14,322,434	444,713	14,278,590	14,502,322
Investment property, net	6(11)	865,039	26,860	868,057	671,195
Deferred tax assets	6(36)	5,088,804	158,008	4,353,210	3,698,294
Other assets, net	6(12)	1,621,685	50,354	1,443,326	1,556,910
<b>Total assets</b>		<b>\$ 2,974,451,591</b>	<b>\$ 92,357,064</b>	<b>\$ 3,088,767,723</b>	<b>\$ 2,975,064,553</b>
<b>Liabilities and equity</b>					
<b>Liabilities</b>					
Due to the Central Bank and commercial banks	6(13) and 11(3)	\$ 386,017,007	\$ 11,985,872	\$ 419,876,839	\$ 461,696,712
Borrowed funds	6(14) and 11(3)	39,974,427	1,241,211	45,459,094	53,906,541
Financial liabilities at fair value through profit or loss	6(15)(18)	11,394,240	353,792	21,939,295	27,345,358
Securities sold under repurchase agreements	6(3)(6) and 13	444,678	13,807	547,798	50,189,662
Payables	6(16)	32,149,539	998,247	35,948,937	36,102,125
Current tax liabilities	6(36) and 11(3)	8,134,367	252,573	8,333,393	7,281,687
Deposits and remittances	6(17) and 11(3)	2,173,615,665	67,491,016	2,235,241,655	2,038,661,855
Financial bonds payable	6(18)	36,200,000	1,124,014	36,200,000	50,200,000
Other financial liabilities	6(20)	8,583,989	266,534	8,673,223	9,021,046
Provisions	6(19) and 11(3)	12,953,433	402,206	11,923,424	10,453,201
Deferred tax liabilities	6(36)	2,161,652	67,120	2,153,957	2,143,376
Other liabilities	6(21)	5,258,347	163,272	8,977,157	9,552,549
<b>Total liabilities</b>		<b>2,716,887,344</b>	<b>84,359,664</b>	<b>2,835,274,772</b>	<b>2,756,554,112</b>
<b>Equity attributable to owners of the parent company</b>					
<b>Share capital</b>					
Common stock	6(22)	85,362,336	2,650,510	85,362,336	77,000,000
Capital reserve	6(22)	62,219,540	1,931,924	62,219,540	46,498,006
<b>Retained earnings</b>					
Legal reserve	6(22)	73,987,859	2,297,332	66,275,325	58,483,335
Special reserve	6(22)	3,873,832	120,283	3,845,354	3,822,741
Undistributed earnings	6(23)	33,582,479	1,042,740	35,561,380	29,916,495
Other equity	6(6)(24)	( 1,461,799 )	( 45,389 )	229,016	2,789,864
<b>Total equity</b>		<b>257,564,247</b>	<b>7,997,400</b>	<b>253,492,951</b>	<b>218,510,441</b>
<b>Total liabilities and equity</b>		<b>\$ 2,974,451,591</b>	<b>\$ 92,357,064</b>	<b>\$ 3,088,767,723</b>	<b>\$ 2,975,064,553</b>

The accompanying notes are an integral part of these financial statements.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)**

	Notes	For the years ended December 31,		
		2016		2015
		NT\$	US\$	NT\$
			(Unaudited-Note 4)	
Interest revenue	6(6)(7)(25) and 11(3)	\$ 50,877,951	\$ 1,579,766	\$ 53,879,273
Less: interest expense	6(25) and 11(3)	( 15,294,311 )	( 474,890 )	( 17,833,323 )
<b>Net interest income</b>		<b>35,583,640</b>	<b>1,104,876</b>	<b>36,045,950</b>
<b>Non-interest income</b>				
Net service fee income	6(26) and 11(3)	7,907,733	245,536	8,599,921
Gains (Loss) on financial assets and liabilities at fair value through profit or loss	6(27)	3,009,597	93,448	( 1,155,347 )
Realized gains on available-for-sale financial assets	6(28)	1,596,716	49,578	1,190,984
Realized loss on held-to maturity financial assets	6(7)	( 189 )	( 6 )	-
Foreign exchange gain		2,112,070	65,580	2,907,967
Loss on asset impairment	6(6)(9)(29)	( 334,397 )	( 10,383 )	( 487,652 )
Investment income recognized by the equity method	6(8)	227,118	7,052	185,889
Net other non-interest income	6(30)	228,162	7,085	324,511
Gain on financial assets carried at cost	6(9)	803,272	24,942	764,288
Indemnity income	6(31)	-	-	1,717,260
Net other miscellaneous loss (income)	6(32)	( 5,498,994 )	( 170,744 )	147,451
<b>Net operating income</b>		<b>45,634,728</b>	<b>1,416,964</b>	<b>50,241,222</b>
(Provision) reversal for loan losses and guarantee reserve	6(5)(19)	( 3,619,823 )	( 112,396 )	543,892
<b>Operating expenses</b>				
Employee benefits expenses	6(33) and 11(3)	( 11,920,209 )	( 370,124 )	( 13,271,460 )
Depreciation and amortization	6(34)	( 490,379 )	( 15,226 )	( 487,667 )
Other general and administrative expenses	6(35) and 11(3)	( 6,488,949 )	( 201,483 )	( 6,705,778 )
<b>Consolidated income from continuing operations before income tax</b>		<b>23,115,368</b>	<b>717,735</b>	<b>30,320,209</b>
Income tax expense	6(36)	( 4,105,407 )	( 127,473 )	( 4,611,764 )
<b>Consolidated net income</b>		<b>19,009,961</b>	<b>590,262</b>	<b>25,708,445</b>
<b>Other comprehensive income</b>				
<b>Non-reclassifiable to profit or loss subsequently</b>				
Remeasurement of defined benefit plan	6(19)	( 534,337 )	( 16,591 )	( 1,398,743 )
Income tax relating to the components of other comprehensive income	6(36)	90,837	2,820	237,786
<b>Potentially reclassifiable to profit or loss subsequently</b>				
Cumulative translation differences of foreign operations	6(24)	( 1,255,005 )	( 38,968 )	( 221,299 )
Unrealized (loss) gain on valuation of available-for-sale financial assets	6(24)	( 373,245 )	( 11,589 )	( 2,361,247 )
Share of other comprehensive (loss) income of associates and joint ventures accounted for under the equity method	6(24)	( 62,565 )	( 1,943 )	21,698
<b>Total other comprehensive loss (after income tax)</b>		<b>( 2,134,315 )</b>	<b>( 66,271 )</b>	<b>( 3,721,805 )</b>
<b>Total comprehensive income</b>		<b>\$ 16,875,646</b>	<b>\$ 523,991</b>	<b>\$ 21,986,640</b>
<b>Consolidated net income attributable to:</b>				
Owners of the parent		<u>\$ 19,009,961</u>	<u>\$ 590,262</u>	<u>\$ 25,708,445</u>
<b>Consolidated comprehensive income attributable to:</b>				
Owners of the parent		<u>\$ 16,875,646</u>	<u>\$ 523,991</u>	<u>\$ 21,986,640</u>
<b>Consolidated earnings per share</b>				
Basic and diluted earnings per share (in dollars)	6(37)	<u>\$ 2.23</u>	<u>\$ 0.07</u>	<u>\$ 3.27</u>

The accompanying notes are an integral part of these financial statements.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	Equity attributable to owners of the parent							Total
	Retained earnings			Other equity				
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Differences of Foreign Operations	Unrealized Gain or Loss on Available-For-Sale Financial Assets	
For the year ended December 31, 2016 (NT Dollars)								
Balance, January 1, 2016	\$ 85,362,336	\$ 62,219,540	\$ 66,275,325	\$ 3,845,354	\$ 35,561,380	\$ 331,363	(\$ 102,347)	\$ 253,492,951
Earnings distribution for 2015	-	-	-	-	( 12,804,350 )	-	-	( 12,804,350 )
Cash dividends	-	-	-	-	( 7,712,534 )	-	-	-
Legal reserve	-	-	7,712,534	-	( 28,478 )	-	-	-
Special reserve	-	-	-	28,478	( 19,009,961 )	-	-	-
Net income for the year of 2016	-	-	-	-	( 443,500 )	( 1,257,596 )	( 433,219 )	19,009,961
Other comprehensive loss for the year of 2016	-	-	-	-	-	-	-	( 2,134,315 )
Balance, December 31, 2016	\$ 85,362,336	\$ 62,219,540	\$ 73,987,859	\$ 3,873,832	\$ 33,582,479	(\$ 926,233)	(\$ 535,566)	\$ 257,564,247
For the year ended December 31, 2016 (US Dollars - Unaudited-Note 4)								
Balance, January 1, 2016	\$ 2,650,510	\$ 1,931,924	\$ 2,057,857	\$ 119,399	\$ 1,104,185	\$ 10,289	(\$ 3,178)	\$ 7,870,986
Earnings distribution for 2015	-	-	-	-	( 397,577 )	-	-	( 397,577 )
Cash dividends	-	-	-	-	( 239,475 )	-	-	-
Legal reserve	-	-	239,475	-	( 884 )	-	-	-
Special reserve	-	-	-	884	( 590,262 )	-	-	-
Net income for the year of 2016	-	-	-	-	( 13,771 )	( 39,049 )	( 13,451 )	590,262
Other comprehensive loss for the year of 2016	-	-	-	-	-	-	-	( 66,271 )
Balance, December 31, 2016	\$ 2,650,510	\$ 1,931,924	\$ 2,297,332	\$ 120,283	\$ 1,042,740	(\$ 28,760)	(\$ 16,629)	\$ 7,997,400

(Continued)



**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	Equity attributable to owners of the parent							
	Retained earnings				Other equity			
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Differences of Foreign Operations	Unrealized Gain or Loss on Available-For-Sale Financial Assets	Total
\$	77,000,000	\$ 46,498,006	\$ 58,483,335	\$ 3,822,741	\$ 29,916,495	\$ 550,023	\$ 2,239,841	\$ 218,510,441
	-	-	-	-	( 11,088,000 )	-	-	( 11,088,000 )
Cash dividends	-	-	-	-	( 7,791,990 )	-	-	-
Legal reserve	-	-	7,791,990	-	( 7,791,990 )	-	-	-
Special reserve	-	-	-	25,253	( 25,253 )	-	-	-
Reversal of special reserve	-	-	-	( 2,640 )	2,640	-	-	-
Issuance of common stock	8,362,336	15,722,164	-	-	-	-	-	24,084,500
Changes in capital surplus of associates and joint ventures accounted for under equity method	-	( 630 )	-	-	-	-	-	( 630 )
Net income for the year of 2015	-	-	-	-	25,708,445	-	-	25,708,445
Other comprehensive loss for the year of 2015	-	-	-	-	( 1,160,957 )	( 218,660 )	( 2,342,188 )	( 3,721,805 )
Balance, December 31, 2015	\$ 85,362,336	\$ 62,219,540	\$ 66,275,325	\$ 3,845,354	\$ 35,561,380	\$ 331,363	\$ 102,347	\$ 253,492,951

The accompanying notes are an integral part of these financial statements.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	For the years ended December 31,		
	2016		2015
	NTS	US\$	NTS
		(Unaudited -Note 4)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Consolidated income before income tax	\$ 23,115,368	\$ 717,735	\$ 30,320,209
Adjustments to reconcile consolidated income before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Provision for loan losses and guarantee reserve (reversal)	3,619,823	112,396	( 543,892 )
Depreciation	484,684	15,049	483,745
Amortization	5,695	177	3,922
Interest income	( 50,877,951 )	( 1,579,766 )	( 53,879,273 )
Dividend income	( 1,102,239 )	( 34,225 )	( 1,133,014 )
Interest expense	15,294,311	474,890	17,833,323
Investment income recognized under the equity method	( 227,118 )	( 7,052 )	( 182,543 )
Proceeds from disposal of investments under the equity method	-	-	( 3,346 )
Gain on disposal of property and equipment	( 1,142 )	( 36 )	( 2,893 )
Loss on asset impairment	334,397	10,383	487,652
Loss on retirement of property and equipment	253	8	541
Changes in assets/liabilities relating to operating activities			
Decrease in due from the Central Bank and call loans to banks	6,827,796	212,004	17,039,254
Decrease (increase) in financial assets at fair value through profit or loss	1,711,731	53,150	( 3,331,337 )
Decrease (increase) in receivables	83,835,911	2,603,115	28,148,654
Decrease (increase) in bills discounted and loans	54,310,193	1,686,338	( 39,272,959 )
Decrease (increase) in available-for-sale financial assets	25,309,572	785,865	( 46,876,359 )
Increase in held-to-maturity financial assets	( 79,762,628 )	( 2,476,639 )	( 37,733,500 )
(Increase) decrease in other financial assets	( 125,878 )	( 3,909 )	3,654,019
(Increase) decrease in other assets	( 184,024 )	( 5,714 )	109,435
Decrease in due to the Central Bank and commercial banks	( 33,859,832 )	( 1,051,352 )	( 41,819,873 )
Decrease in financial liabilities at fair value through profit or loss	( 10,545,055 )	( 327,425 )	( 5,406,063 )
Decrease in securities sold under repurchase agreements	( 103,120 )	( 3,202 )	( 49,641,864 )
(Decrease) increase in payables	( 3,585,879 )	( 111,342 )	30,083
(Decrease) increase in deposits and remittances	( 61,625,990 )	( 1,913,494 )	196,579,800
Decrease in other financial liabilities	( 89,234 )	( 2,771 )	( 347,823 )
Increase in reserve for employee benefit liabilities	45,482	1,412	35,435
Decrease in other liabilities	( 3,085,629 )	( 95,809 )	( 185,335 )
Interest received	50,650,521	1,572,705	53,894,582
Dividend received	1,261,175	39,160	1,305,595
Interest paid	( 15,507,830 )	( 481,520 )	( 18,016,892 )
Income tax paid	( 4,473,792 )	( 138,912 )	( 4,033,541 )
Net cash provided by operating activities	1,649,571	51,219	47,515,742
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of investments under the equity method	2,747	85	21,924
Acquisition of investments accounted for under the equity method	-	-	( 150,000 )
Proceeds from capital reduction of investee accounted for under the equity method	-	-	97,877
Proceeds from capital reduction of financial assets carried at cost	193	6	-
Proceeds from disposal of property and equipment	1,799	56	2,893
Acquisitions of property and equipment	( 466,857 )	( 14,496 )	( 387,520 )
Net cash used in investing activities	( 462,118 )	( 14,349 )	( 414,826 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in borrowed funds	( 5,484,667 )	( 170,299 )	( 8,447,447 )
Decrease in financial bonds payable	-	-	( 14,000,000 )
Decrease in deposits received	( 633,181 )	( 19,660 )	( 390,057 )
Payments of cash dividends	( 12,804,350 )	( 397,577 )	( 11,088,000 )
Proceeds from issuance of common stock	-	-	24,084,500
Net cash (used in) provided by financing activities	( 18,922,198 )	( 587,536 )	( 9,841,004 )
EFFECT OF EXCHANGE RATE CHANGES	( 1,238,798 )	( 38,465 )	( 217,163 )
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	( 18,973,543 )	( 589,131 )	37,042,749
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	442,010,135	13,724,466	404,967,386
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 423,036,592	\$ 13,135,335	\$ 442,010,135
<b>CASH AND CASH EQUIVALENTS COMPOSITION:</b>			
Cash and cash equivalents shown in consolidated balance sheet	\$ 90,426,546	\$ 2,807,755	\$ 145,026,871
Due from the Central Bank and call loans to bank meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	328,354,078	10,195,432	287,547,395
Securities purchased under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	4,255,968	132,148	9,435,869
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 423,036,592	\$ 13,135,335	\$ 442,010,135

The accompanying notes are an integral part of these financial statements.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND ITS SUBSIDIARIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)**

1. **HISTORY AND ORGANIZATION**

- (1) Mega International Commercial Bank Co., Ltd. (the "Bank"; formerly The International Commercial Bank of China Co., Ltd.) was reorganized on December 15, 1971 in accordance with the "Law for International Commercial Bank of China" as announced by the President of the Republic of China (R.O.C.) (which was then abolished in December, 2005) and other related regulations. As of December 31, 2002, the Bank became an unlisted wholly owned subsidiary of Mega Financial Holding Co. Ltd., through a share swap transaction. With the view to enlarging business scale and increasing market share, the Bank entered into a merger agreement with Chiao Tung Bank Co., Ltd. on August 21, 2006, the effective date of the merger. The Bank was later renamed Mega International Commercial Bank Co., Ltd. Mega Financial Holding Co., Ltd. holds 100% equity interest in the Bank and is the Bank's ultimate parent company.
- (2) The Bank engages in the following operations: (a) commercial banking operations authorized by the R.O.C. Banking Law; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust operations; (f) investment services on consignments by clients; (g) loan operations, including mid-term to long-term development loan and guarantee operations; (h) venture capital activities; and (i) other related operations approved by the R.O.C. government.
- (3) The Bank's business and operations are widely managed by the head office. The Bank expands its network by opening branches at key locations in both domestic and foreign markets. The Bank was incorporated as company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). As of December 31, 2016 the Bank had 107 domestic branches, 22 overseas branches, 5 overseas sub-branches, 4 overseas representative offices, and 1 marketing office.
- (4) The Trust Department of the Bank is primarily responsible for planning, management and operation of trust investment businesses regulated by the R.O.C. Banking Law.
- (5) As of December 31, 2016 and 2015, the Bank and its subsidiaries had 5,733 and 5,667 employees, respectively.

2. **THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION**

These consolidated financial statements were authorized for issuance by the Board of Directors on March 24, 2017.

3. **APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS**

- (1) **Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")**

None.

- (2) **Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Bank and its subsidiaries**

New standards, interpretations and amendments endorsed by the FSC effective from 2017 are as follows:

<u>New Standards, Interpretations and Amendments</u>	<u>Effective Date by International Accounting Standards Board</u>
Investment entities: applying the consolidation exception(amendments to IFRS 10, IFRS 12 and IAS 28)	January 1, 2016
Accounting for acquisition of interests in joint operations(amendments to IFRS 11)	January 1, 2016
IFRS 14, 'Regulatory deferral accounts'	January 1, 2016
Disclosure initiative (amendments to IAS 1)	January 1, 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	January 1, 2016
Agriculture: bearer plants (amendments to IAS 16 and IAS 41)	January 1, 2016
Defined benefit plans: employee contributions (amendments to IAS 19R)	July 1, 2014
Equity method in separate financial statements (amendments to IAS 27)	January 1, 2016
Recoverable amount disclosures for non-financial assets (amendments to IAS 36)	January 1, 2014
Novation of derivatives and continuation of hedge accounting (amendments to IAS 39)	January 1, 2014
IFRIC 21, 'Levies'	January 1, 2014
Improvements to IFRSs 2010-2012	July 1, 2014
Improvements to IFRSs 2011-2013	July 1, 2014
Improvements to IFRSs 2012-2014	January 1, 2016

As of the date the consolidated financial statements were issued, the above standards and interpretations have no significant impact to the Bank and its subsidiaries' financial condition and operating result.

- (3) **IFRSs issued by IASB but not yet endorsed by the FSC**

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs endorsed by the FSC effective from 2017 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Classification and measurement of share-based payment transactions (amendments to IFRS 2)	January 1, 2018
Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4)	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	To be determined by International Accounting Standards Board
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Clarifications to IFRS 15, 'Revenue from contracts with customers' (amendments to IFRS 15)	January 1, 2018
IFRS 16, 'Leases'	January 1, 2019
Disclosure initiative (amendments to IAS 7)	January 1, 2017
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	January 1, 2017
Transfers of investment property (amendments to IAS 40)	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle- Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Bank and its subsidiaries' financial condition and operating result. The quantitative impact will be disclosed when the assessment is complete.

#### A. IFRS 9, 'Financial instruments'

- (a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.
- (b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

#### B. IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' replaces IAS 11 'Construction Contracts', IAS 18 'Revenue' and relevant interpretations. According to IFRS 15, revenue is recognized when a customer obtains control of promised goods or services. A customer obtains control of goods or services when a customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify contracts with customer.
- Step 2: Identify separate performance obligations in the contract(s).
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price.
- Step 5: Recognize revenue when the performance obligation is satisfied.

Further, IFRS 15 includes a set of comprehensive disclosure requirements that requires an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

#### C. IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognize a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Bank and its subsidiaries have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks”, International Financial Reporting Standards, International Accounting standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC ( collectively referred herein as the “IFRSs”).

(2) Basis for preparation

Except for financial assets and financial liabilities (including derivative instruments) at fair value, defined benefit liabilities recognized based on the net amount of pension fund assets less present value of defined benefit obligation, and available-for-sale financial assets measured at fair value, these consolidated financial statements have been prepared under the historical cost convention.

The analysis of expense is classified based on the nature of expenses.

The management has to make certain significant accounting estimates based on their professional judgment and decide the accounting policy according to the IFRSs as endorsed by the FSC. Any change in the assumption could result in a significant change in the financial statements. The management of the Bank and its subsidiaries believes that the assumptions used in the consolidated statements are appropriate. For highly complicated matters, matters requiring high level of judgments, significant judgments that could have an impact on the consolidated financial statements and estimates and key sources of assumption uncertainty, please refer to Note 5 for further details.

(3) Basis for preparation of consolidated financial statements

A. All subsidiaries are included in the Bank and its subsidiaries’ consolidated financial statements. Subsidiaries are all entities controlled by the Bank. The Bank controls an entity when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Bank obtains control of the subsidiaries and ceases when the Bank loses control of the subsidiaries.

Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Bank and its subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Bank.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent. Total comprehensive income is also attributed to the owners of the parent.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiaries	Major business activities	Percentage of holding shares (%)	
			December 31, 2016	December 31, 2015
The Bank	Mega International Commercial Bank (Canada)	Commercial Banking	100.00	100.00
The Bank	Mega International Commercial Public Co., Ltd.(Thailand)	Commercial Banking	100.00	100.00

C. Subsidiaries not included in the consolidated financial statements:

Name of investor	Name of subsidiaries	Major business activities	Percentage of holding shares (%)	
			December 31, 2016	December 31, 2015
The Bank	Cathay Investment & Development Corporation (Bahamas)	International Investment & Exploration	100.00	100.00
The Bank	Mega Management Consulting Co., Ltd.	Venture capital and management consulting etc	100.00	100.00
The Bank	Cathay Investment & Warehousing Co., S.A.	1.Storage and warehousing of imported commodities 2.Manage and make the investment for the business in foreign trade business	100.00	100.00
The Bank	Ramlett Finance Holdings Inc.	Real estate investment industry	100.00	100.00
The Bank	Yung-Shing Industries Co.	Packaging, printing and agency of manpower service	99.56	99.56
The Bank	China Products Trading Company	Investments in products businesses, storage businesses and other businesses	68.27	68.27
Yung-Shing Industries Co.	Win Card Co., Ltd	Corporate management consulting, data processing business and general advertising services	100.00	100.00
Yung-Shing Industries Co.	ICBC Asset Management & Consulting Co., Ltd	Investment consulting, corporate management consulting and venture investment management consulting	100.00	100.00

As the individual total assets or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Bank’s consolidated financial statements although the Bank holds more than 50% equity interest in these subsidiaries. The investments of certain subsidiaries are accounted for under equity method.

D. Adjustments for subsidiaries with different balance sheet dates: None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company: None.

(4) Foreign currency translations

A. Functional and presentation currency

Items included in the financial statements of each of the Bank and its subsidiaries' entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Bank's functional and the Bank and its subsidiaries' presentation currency.

B. Transactions and balances

The transactions denominated in foreign currency or to be settled in foreign currency are translated into a functional currency at the spot exchange rate between the functional currency and the underlying foreign currency on the date of the transaction.

Foreign currency monetary items should be reported using the closing rate (market exchange rate) at the date of each balance sheet. When multiple exchange rates are available for use, they should be reported using the rate that would be used to settle the future cash flows of the foreign currency transactions or balances at the measurement date. Foreign currency non-monetary items measured at historical cost should be reported using the exchange rate at the date of the transaction. Foreign currency non-monetary items measured at fair value should be reported at the rate that existed when the fair values were determined.

Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period.

If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. Conversely, if a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

C. Translation of foreign operations

The operating results and financial position of the entire Bank and its subsidiaries' entities in the consolidated financial statements that have a functional currency (which is not the currency of a hyperinflationary economy) different from the presentation currency are translated into the presentation currency as follows:

(A) Assets and liabilities presented are translated at the Bank and its subsidiaries' closing exchange rate at the date of that balance sheet;

(B) The profit and loss presented is translated by the average exchange rate in the period (except for the situation that the exchange rate on the trade date shall be adopted when the exchange rate fluctuate rapidly); and

(C) All resulting exchange differences are recognized in other comprehensive income.

The translation differences arising from above processes are recognized as 'Cumulative translation differences of foreign operations' under equity items.

(5) Cash and cash equivalents

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. In respect of the consolidated statements of cash flows, cash and cash equivalents include cash and cash equivalents in the consolidated balance sheet, due from the central bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No.7 "Cash Flow Statements", and securities purchased under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements" as endorsed by the FSC.

(6) Bills and bonds under repurchase or resale agreements

The transactions of bills and bonds with a condition of repurchase agreement or resell agreement are accounted for under the financing method. The interest expense and interest income are recognized as incurred at the date of sale and purchase and the agreed period of sale and purchase. The repo trade liabilities, bond liabilities, reverse repo trade bills and bond investments are recognized at the date of sale or purchase.

(7) Financial assets or liabilities

The financial assets and liabilities of the Bank and its subsidiaries including derivatives are recognized in the consolidated balance sheet and are properly classified in accordance with IFRSs as endorsed by the FSC.

A. Financial assets

The IFRSs as endorsed by the Financial Supervisory Commission apply to the entire Bank and its subsidiaries' financial assets, which are classified into four categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets.

(A) A regular way purchase or sale

Financial assets that are purchased or sold on a regular way purchase or sale basis should be recognized and derecognized using trade date accounting or settlement date accounting. The uniform accounting principles should be applied in the accounting for purchase and sale of financial assets of the same type. All the Bank and its subsidiaries' financial assets are accounted for using trade date accounting.

(B) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

There are two types of loans and receivables: one is originated by the Bank and its subsidiaries; the other is not originated by the Bank and its subsidiaries. Loans and receivables originated by the entity refer to the direct provision by the Bank and its subsidiaries of money, merchandise or services to debtors, and loans and receivables not originated by the Bank and its subsidiaries are loans and receivables other than those originated by the Bank and its subsidiaries.

Loans and receivables are initially recognized at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured using the effective interest method. However, if the effect of discount is insignificant, following the “Regulations Governing the Preparation of Financial Reports by Public Banks”, loans and receivables can be measured at initial amount.

Interest accruing on loans and receivables is recognized as ‘interest revenue’. An impairment loss is recognized when there is an objective evidence of impairment on loans and receivables. Allowance for impairment is a deduction to carrying amount of loans and receivables, which is under the ‘allowance for bad debts and reserve for guarantee liabilities’ account.

(C) Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling or repurchasing or gaining profit in the short-term, or if they are derivative instruments. These financial assets are initially recognized at fair value.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

- a. Hybrid (combined) contracts; or
- b. They eliminate or significantly reduce a measurement or recognition inconsistency; or
- c. They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Any changes in fair value of financial assets at fair value through profit or loss and financial assets designated as at fair value through profit or loss on initial recognition are recognized under the ‘gain/loss on financial assets and liabilities at fair value through profit or loss’ account in the consolidated statement of comprehensive income.

(D) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Bank and its subsidiaries have the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables, designated as available-for-sale financial assets and those that are designated as at fair value through profit or loss on initial recognition by the Bank and its subsidiaries.

Interest accruing on held-to-maturity financial assets is recognized as ‘interest revenue’. An impairment loss is recognized when there is an objective evidence of impairment on financial assets. Impairment loss is a deduction to carrying amount of financial assets, which is recognized under the ‘impairment loss on financial assets’ account.

(E) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not classified in held-to-maturity financial assets, financial assets at fair value through profit or loss and loans and receivables. Financial assets and liabilities that are attributed to equity and debt investments on initial recognition are assessed at fair value. Transaction costs which are attributable to the acquisition should be capitalized.

Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income. When the financial asset is no longer recognized, the cumulative unrealized gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

An impairment loss is recognized when there is an objective evidence of impairment. If financial assets have not been derecognized, accumulated impairment loss related to the financial assets that was previously recognized in other comprehensive income shall be reclassified to profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Any subsequent increases in fair value of an investment in an equity instrument are recognized in other comprehensive income. If the impairment loss of bond investments decreases with objective evidence indicating that an impairment loss has been incurred after the impairment is recognized, the impairment amount is reversed and recognized in current profit and loss.

Equity instruments with no quoted price in an active market are initially recognized at fair value plus acquisition or issuance cost. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variability in the range of reasonable fair value estimate is not significant for that equity instrument; or (b) probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

(F) Other financial assets

Other financial assets include investments in debt instruments without active market, overdue receivables not from lending, bill of exchange negotiated and financial assets measured at cost.

a. Debt investments with no active market

Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs of acquisition or issuance. Disposal gain or loss is recognized when such investments are derecognized. Bond investments without active market are measured at amortized cost using the effective interest method.

b. Equity investments carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in ‘equity investments carried at cost’.

B. Financial liabilities

Financial liabilities held by the Bank and its subsidiaries comprise financial liabilities at fair value through profit or loss (including financial liabilities designated as at fair value through profit or loss on initial recognition) and financial liabilities measured at amortized cost.

(A) Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition.

A financial liability shall be classified as held for trading, if it is incurred principally for the purpose of repurchasing it in the near term; or on initial recognition, is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative is also classified as held for trading, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument. Financial liability held for trading also includes the obligations of delivery of financial assets borrowed by the seller. Above financial liability is shown as “financial liability at fair value through profit or loss” in the consolidated balance sheet.

At initial recognition, it is not revocable if a debt instrument is designated at fair value through profit and loss. When the fair value method is adopted, the main contract and the embedded derivative need not be recognized respectively.

Any changes in fair value of financial liabilities at fair value through profit or loss and financial liabilities designated as at fair value through profit or loss on initial recognition are recognized under the ‘gain/loss on financial assets and liabilities at fair value through profit or loss’ account in the consolidated statement of comprehensive income.

(B) Financial liabilities measured at amortized cost

All other financial liabilities that are not classified as financial liabilities at fair value through profit or loss are classified as financial liabilities measured at amortized cost.

C. Determination of fair value

Fair value and level information of financial instruments are provided in Note 7.

D. Derecognition of financial instruments

The Bank and its subsidiaries derecognize a financial asset when one of the following conditions is met:

- (A) The contractual rights to receive cash flows from the financial asset expire.
- (B) The contractual rights to receive cash flows from the financial asset have been transferred and the Bank and its subsidiaries have transferred substantially all risks and rewards of ownership of the financial asset.
- (C) The contractual rights to receive cash flows from the financial asset have been transferred; however, it has not retained control of the financial asset.

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

In case of securities lending or borrowing by the Bank and its subsidiaries or provision of bonds or stocks as security for repo trading, the Bank and its subsidiaries does not derecognize the financial asset, because substantially all risks and rewards of ownership of the financial asset are still retained in the Bank and its subsidiaries.

(8) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the consolidated balance sheet when (A) there is a legally enforceable right to offset the recognized amounts and (B) there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(9) Financial asset-evaluation, provision and reversal of impairment losses

A. The Bank and its subsidiaries would presume that a financial asset or a group of financial assets is impaired and recognize the impairment losses only if there is objective evidence that a financial asset or a group of financial assets is impaired as a result of a loss event that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets.

B. The criteria that the Bank and its subsidiaries use to determine whether there is objective evidence of an impairment loss is as follows:

- (A) Significant financial difficulty of the issuer or debtor;
- (B) A breach of contract, such as a default or delinquency in interest or principal payments;
- (C) The Bank and its subsidiaries, for economic or legal reasons relating to the borrower’s financial difficulty, granted the borrower a concession that a lender would not otherwise consider;
- (D) It becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- (E) The disappearance of an active market for that financial asset because of financial difficulties;
- (F) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including adverse changes in the payment status of borrowers in the group or national or local economic conditions that correlate with defaults on the assets in the group;



- (G) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or
  - (H) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.
  - (I) Others are implemented in accordance with the Bank and its subsidiaries' internal policies.
- C. The assessment methods of impairment on loans and receivables are based on two categories: individual and collective assessments. Individual assessments are classified as different groups based on whether there is objective evidence of significant impairment of the asset or whether the individual asset has to be specially supervised. If no objective evidence of impairment exists for an individually assessed financial asset, the asset will be classified into a group of financial assets with similar credit risk characteristics for collective assessments.
- D. After assessed impairment of loans and receivables, the Bank and its subsidiaries recognizes' impairment loss measured as the difference between the asset's carrying amount and the present value of estimated future cash flows of credit enhancement factors discounted at the asset's original effective interest rate. The credit enhancement factors include financial guarantee and net of collateral. If, in a subsequent period, the amount of the impairment loss decreased and such decrease is objectively related to an event occurred after the impairment was recognized, the amount of impairment loss recognized previously shall be reversed by adjusting the allowance for doubtful debts. The reversal shall not cause a carrying amount of the financial asset that exceeds the amortized cost of the period before recognition of the impairment loss. The amount of reversal shall be recognized in profit or loss.
- E. Aforementioned assessment of loans and receivables were in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", Financial-Supervisory-Banks Letter. No. 10300329440 of the FSC related to strengthening domestic banks' tolerance of real estate mortgage risk on December 4, 2014 and Financial-Supervisory-Banks Letter. No.10410001840 of the FSC related to strengthening domestic banks' controls and tolerance of risk exposure in Mainland China on April 23, 2015.
- F. Equity investments carried at cost
- The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial assets, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset directly.

#### (10) Derivatives

Derivatives are initially recognized at fair value at the contract date and subsequently measured by fair value. The fair value includes the public quotation in an active market or the latest trade price (e.g., Exchange-traded options), and evaluation techniques such as cash flow discounting model or option pricing model (e.g., Swap contract and foreign exchange contracts). All derivatives are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Hybrid contract refers to financial instruments of the embedded derivatives. Economic characteristics and risks of the embedded derivatives and the economic characteristics of the main contract should be examined for the embedded derivatives. If the two are not closely correlated and the main contract is not a financial asset or liability at fair value through profit and loss, the main contract and embedded derivatives should be respectively recognized unless the overall hybrid contract is designated as assets or liabilities at fair value through profit and loss. The embedded derivatives are the financial assets or liabilities at fair value through profit and loss.

#### (11) Investments accounted for under the equity method

- A. Associates are all entities over which the Bank and its subsidiaries have significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using the equity method and are initially recognized at cost.
- B. The Bank and its subsidiaries' share of its associates' post-acquisition profits or losses is recognized in profits or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Bank and its subsidiaries' share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank and its subsidiaries do not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.
- C. Unrealized gains on transactions between the Bank and its subsidiaries and its associates are eliminated to the extent of the Bank and its subsidiaries' interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Bank and its subsidiaries.
- D. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associates and such changes not affecting the Bank and its subsidiaries' ownership percentage of the associate, the Bank and its subsidiaries recognized the Bank and its subsidiaries' share of change in equity of the associate in 'capital reserve' in proportion to its ownership.
- E. When the Bank and its subsidiaries disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as other comprehensive income in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as other comprehensive income in relation to the associate are transferred to profit or loss proportionately.

#### (12) Property and equipment

The property and equipment of the Bank and its subsidiaries are recognized on the basis of the historical cost less accumulated depreciation. Historical cost includes all costs directly attributable to the acquisition of the assets.

Such assets are subsequently measured using the cost model. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and its subsidiaries and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not affected by depreciation. Depreciation for other assets is provided on a straight-line basis over the estimated useful lives of the assets till residual value. If each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Item	Year
Buildings and accessory equipment	1~60
Machinery and computer equipment	1~20
Transportation equipment	1~10
Other equipment	3~10

(13) Investment property

The properties held by the Bank and its subsidiaries, with an intention to obtain long-term rental profit or capital increase or both and not being used by any other enterprises of the consolidated entities, are classified as investment property. Investment property includes the office building and land leased out in a form of operating lease.

Part of the property may be held by the Bank and its subsidiaries and the remaining will be used to generate rental income or capital appreciation. If the property held by the Bank and its subsidiaries can be sold individually, then the accounting treatment should be made respectively.

When the future economic benefit related to the investment property is highly likely to flow into the Bank and its subsidiaries and the costs can be reliably measured, the investment property shall be recognized as assets. When the future economic benefit generated from subsequent costs is highly likely to flow into the entity and the costs can be reliably measured, the subsequent expenses of the assets shall be capitalized. All maintenance cost are recognized as incurred in the consolidated statement of comprehensive income.

An investment property is stated initially at its cost and measured subsequently using the cost model. The depreciation method, remaining useful life and residual value should apply the same rules as applicable for property and equipment.

(14) Foreclosed properties

Foreclosed properties are stated at the lower of carrying amount or fair value less selling cost on the financial reporting date.

(15) Impairment of non-financial assets

The Bank and its subsidiaries assess at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(16) Provisions for liabilities, contingent liabilities and contingent assets

When all the following criteria are met, the Bank and its subsidiaries shall recognize a provision:

- A. A present obligation (legal or constructive) as a result of a past event;
- B. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- C. The amount of the obligation can be reliably estimated.

If there are several similar obligations, the outflow of economic benefit as a result of settlement is determined based on the overall obligation. Provisions for liabilities should be recognized when the outflow of economic benefits is probable in order to settle the obligation as a whole even if the outflow of economic benefits from any one of the obligation is remote.

Provisions are measured by the present value of expense which is required for settling the anticipated obligation. The pre-tax discount rate is used with timely adjustment that reflects the current market assessments on the time value of money and the risks specific to the obligation.

Contingent liability is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and its subsidiaries. Or it could be a present obligation as a result of past event but the payment is not probable or the amount cannot be measured reliably. The Bank and its subsidiaries did not recognize any contingent liabilities but made appropriate disclosure in compliance with relevant regulations.

Contingent asset is a possible asset that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and its subsidiaries. The Bank and its subsidiaries did not recognize any contingent assets and made appropriate disclosure in compliance with relevant regulations when the economic inflow is probable.

(17) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank and its subsidiaries to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Bank and its subsidiaries initially recognize financial guarantee contracts at fair value on the date of issuance. The Bank and its subsidiaries charge a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognized in deferred accounts and amortized through straight-line method during the contract term.

Subsequently, the Bank and its subsidiaries should measure the financial guarantee contract issued at the higher of:

- A. The amount determined in accordance with IAS 37; and
- B. The amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18, "Revenue".

The best estimate of the liability amount of a financial guarantee contract requires management to exercise their judgment combined with historical loss data based on the similar transaction experiences.

The increase in liabilities due to financial guarantee contract is recognized in "provision for loan losses and guarantee reserve".

Assessment of above guarantee reserve is in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans" announced by the FSC.

#### (18) Employee benefits

##### A. Short-term employee benefits

The Bank and its subsidiaries should recognize the undiscounted amount of the short-term benefits expected to be paid in the future as expenses in the period when the employees render service.

##### B. Employee preferential savings

The Bank provides preferential interest rate for employees, including flat preferential savings for current employees and flat preferential savings for retired employees and current employees. The difference gap compared to market interest rate is deemed as employee benefits.

According to Regulation Governing the Preparation of Financial Statements by Public Banks, the preferential monthly interest paid to current employees is calculated based on accrual basis, and the difference between the preferential interest rate and the market interest rate is recognized under "employee benefit expense". According to Article 30 of "Regulation Governing the Preparation of Financial Statements by Public Banks", the excessive interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be recognized in accordance with IAS 19, "Employee Benefits", as endorsed by the FSC. However, various parameters should be in compliance with competent authorities if indicated otherwise.

##### C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decisions of the Bank and its subsidiaries to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Bank and its subsidiaries recognizes expense as it can no longer withdraw an offer of termination benefits or it recognizes relating restructuring costs, whichever is earlier.

Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

##### D. Post-employment benefit

The pension plan of the Bank and its subsidiaries includes both Defined Benefit Plan and Defined Contribution Plan. In addition, defined contribution plan is adopted for employees working overseas according to the local regulations.

###### (A) Defined Contribution Plan

The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

###### (B) Defined Benefit Plan

- a. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Bank and its subsidiaries in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Bank and its subsidiaries uses interest rates of government bonds (at the balance sheet date) instead.
- b. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.
- c. Past service costs are recognized immediately in profit or loss.

##### E. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Bank and its subsidiaries calculate the number of shares based on the closing price at the previous day of the Board of Directors' resolution day.

#### (19) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to

equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

#### (20) Revenue and expense

Income and expense of the Bank and its subsidiaries are recognized as incurred. Expenses consist of employee benefit expense, depreciation and amortization expense and other business and administration expenses. Dividend revenues are recognized within 'Revenues other than interest, net' in the consolidated statement of comprehensive income when the right to receive dividends is assured.

- A. Other than those classified as financial assets and liabilities at fair value through profit and loss, all the interest income and interest expense generated from interest-bearing financial assets are calculated by effective interest rate according to relevant regulations and recognized as "interest income" and "interest expense" in the consolidated statement of comprehensive income.
- B. Service fee income and expense are recognized upon the completion of services of loans or other services; service fee earned from performing significant items shall be recognized upon the completion of the service, such as syndication loan service fee received from sponsor, service fee income and expense of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period. When determining whether the agreed rate of interest should be adjusted to effective interest rate for interest-earning loans and receivables, the loans and receivables may be measured by the initial amounts if the effects on discount are insignificant according to the "Regulation Governing the Preparation of Financial Reports by Public Banks".

#### (21) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Bank and its subsidiaries and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

#### (22) Share capital and dividends

Dividends on ordinary shares are recognized in the financial statements in the period in which they are approved by the shareholders. Cash dividends are recorded as liabilities. Stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance; they are not recognized and only disclosed as subsequent event in the notes if the dividend declaration date is later than the consolidated balance sheet date.

#### (23) Operating segments

Information of operating segments of the Bank and its subsidiaries is reported in the same method as the internal management report provided to the chief operating decision-maker (CODM). The CODM is the person or group in charge of allocating resources to operating segments and evaluating their performance. The CODM of the Bank and its subsidiaries is the Board of Directors.

### 5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Bank and its subsidiaries' accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors.

Management's critical judgements in applying the Bank and its subsidiaries' accounting policies that have significant impact on the consolidated financial statements are outlined below:

#### (1) Financial instruments (including derivative instruments) valuation

If there is no quoted market price available in an active market for financial instruments, a valuation technique will be adopted to measure the fair value. If there are observable data of similar financial instruments in the market, then the fair value of the underlying financial instruments is estimated by reference to the observable data; otherwise, the fair value is estimated using the appropriate pricing models which are commonly used in the market. The assumptions used in the pricing models should refer to the observable data in the market. However, when those data

are not observable from the market and/or the assumptions used in the pricing models are more subjective, the fair value of the financial instruments may be estimated based on historical data or other information. The pricing models used by the Bank and its subsidiaries are all evaluated and tested periodically to ensure the outputs may reflect the actual data and market prices. The primary assumptions used in determining the fair values of financial instruments are provided in Note 7(3). The management believes the pricing models and assumptions used have appropriately determined the fair values of financial instruments.

(2) Loan impairment

The Bank and its subsidiaries' impairment assessments are in compliance with the regulations of regulatory authorities. The Bank and its subsidiaries evaluate cash flows and impairment amounts, through model analysis and individual case assessment, on a monthly basis based on several factors, such as nature of client risk and security coverage. The Bank and its subsidiaries recognize impairment loss whenever there is observable evidence showing that impairment has occurred. This evidence includes repayment status of debtor, event that would cause delinquency in payments, and any significantly unfavorable changes in national or local economic circumstance. Future cash flows are estimated primarily based on the length of overdue time, the status of debtors, security coverage, guarantee of external institution and historical experiences. The incidence of impairment and subsequent collectability rate used in impairment evaluations are estimated based on the types of products and historical data. The Bank and its subsidiaries review the assumptions and inputs used in impairment evaluations periodically to ensure they are all reasonable.

(3) Financial assets-impairment of equity investments

The Bank and its subsidiaries follow the guidance of IAS 39 to determine whether a financial asset-equity investment is impaired. This determination requires significant judgement. In making this judgement, the Bank and its subsidiaries evaluate, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If the decline of the fair value of an individual equity investment below cost was considered significant or prolonged, the Bank and its subsidiaries would suffer a loss in its financial statements, being the transfer of the accumulated fair value adjustments recognized in other comprehensive income on the impaired available-for-sale financial assets to profit or loss or being the recognition of the impairment loss on the impaired equity investments carried at cost in profit or loss.

(4) Post-employment benefit

The present value of post-employment benefit obligations are estimated based on several assumptions. Any changes in those assumptions will affect the carrying amounts of post-employment benefit obligations.

The assumptions used to determine net pension cost (revenue) comprise discount rate. The Bank and its subsidiaries determine the appropriate discount rate at the end of each year, and use the discount rate in calculating the present value of future cash outflow of post-employment benefit obligations. The discount rate is chosen by reference to the rate of government bonds where the currency and maturity date of government bonds are in agreement with those of post-employment benefit obligations. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	US\$
Cash on hand and petty cash	\$ 15,389,485	\$ 477,845	\$ 16,728,085	
Checks for clearance	763,191	23,697	1,234,149	
Due from banks	74,276,076	2,306,281	127,066,878	
Subtotal	90,428,752	2,807,823	145,029,112	
Less: allowance for doubtful accounts – due from banks	( 2,206 )	( 68 )	( 2,241 )	
Total	\$ 90,426,546	\$ 2,807,755	\$ 145,026,871	

(2) Due from the Central Bank and call loans to banks

	December 31, 2016	
	NT\$	US\$
Reserve for deposits-category A	\$ 25,765,381	\$ 800,018
Reserve for deposits-category B	37,590,523	1,167,190
Reserve for deposits-general	305	9
Reserve for deposits-foreign currency	585,654	18,185
Deposits of overseas branches with foreign Central Banks	275,864,933	8,565,638
Interbank settlement fund of Fund Center (Note)	4,895,305	152,000
Call loans to banks and bank overdrafts	188,357,264	5,848,515
Import and export loans from banks	140,799	4,372
Participate in interbank financing with risk	6,811,578	211,500
Subtotal	540,011,742	16,767,427
Less: allowance for doubtful accounts – import and export loans from banks	-	-
Total	\$ 540,011,742	\$ 16,767,427

	December 31, 2015		January 1, 2015	
	NT\$		NT\$	
Reserve for deposits-category A	\$	22,045,377	\$	21,885,736
Reserve for deposits-category B		37,720,741		36,566,092
Reserve for deposits-general		312		5,700,300
Reserve for deposits-foreign currency		729,572		431,340
Deposits of overseas branches with foreign Central Banks		255,814,519		239,979,957
Interbank settlement fund of Fund Center (Note)		3,970,161		3,497,785
Call loans to banks and bank overdrafts		176,850,399		87,926,666
Import and export loans from banks		3,121,533		71,463,911
Participate in interbank financing with risk		5,780,241		2,782,450
Subtotal		506,032,855		470,234,237
Less: allowance for doubtful accounts – import and export loans from banks		-	(	750,371)
Total	\$	506,032,855	\$	469,483,866

Note: In accordance with the Bank Law, financial holding companies are required to appropriate an interbank settlement fund and deposit it in the Central Bank for clearing purpose in the financial industry. The interbank settlement fund deposited in a special account in the Central Bank has been reclassified from 'other prepayments' to 'due from the Central Bank and call loans to banks'. As of December 31, 2015 and January 1, 2015, the amount has been adjusted from NT\$0 thousand to NT\$3,970,161 thousand and NT\$3,497,785 thousand, respectively.

As required by relevant laws, the reserves for deposits are calculated at required reserve ratios based on the monthly average balances of various deposit accounts. Reserve for deposits - category B cannot be used except upon the monthly adjustment of the reserve.

(3) Financial assets at fair value through profit or loss, net

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	
<u>Financial assets held for trading</u>				
Stocks	\$	2,866,854	\$	89,016
Derivative instruments		3,783,124		117,466
Corporate bonds		23,284,785		722,995
Financial bonds		15,381,890		477,610
Total	\$	45,316,653	\$	1,407,087
			\$	47,028,384

A. Gain (loss) on financial assets and liabilities held for trading and gain (loss) on financial liabilities designated as at fair value through profit or loss recognized for the years ended December 31, 2016 and 2015 are provided in Note 6(27).

B. As of December 31, 2016 and 2015, the above financial assets were not pledged to other parties as collateral for business reserves and guarantees.

C. As of December 31, 2016 and 2015, the aforementioned bonds that were recognized as financial assets at fair value through profit or loss had not been sold under repurchase agreement.

(4) Receivables, net

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	
Factoring receivable	\$	36,988,054	\$	1,148,483
Accrued interest		5,110,512		158,682
Earned revenue receivable		923,320		28,669
Acceptances receivable		8,240,037		255,854
Accounts receivable factoring -D/A		-		-
Accounts receivable -Credit card		4,452,488		138,250
Accounts receivable -Usance L/C at sight		9,008		280
Accounts receivable -Usance L/C buyout		1,879,409		58,356
Call loan to central bank receivable		-		-
Other receivables		3,251,101		100,947
Total		60,853,929		1,889,521
Less: Allowance for bad debts	(	1,428,738)	(	44,362)
Receivables, net	\$	59,425,191	\$	1,845,159
			\$	142,521,355

## (5) Bills discounted and loans, net

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Bills and notes discounted	\$ 14,859	\$ 461	\$ 5,297
Overdrafts	1,977,856	61,413	3,275,060
Short-term loans	389,317,574	12,088,355	414,857,588
Medium-term loans	773,175,872	24,007,200	799,129,828
Long-term loans	563,521,555	17,497,409	566,026,842
Import/export bills negotiated	12,512,002	388,499	12,257,141
Loans transferred to non-accrual loans	1,453,280	45,125	1,183,527
Total	1,741,972,998	54,088,462	1,796,735,283
Less: Allowance for bad debts	(26,694,232)	(828,859)	(23,466,229)
Bills discounted and loans, net	\$ 1,715,278,766	\$ 53,259,603	\$ 1,773,269,054

A. As of December 31, 2016 and 2015, the amounts of reclassified non-performing loans (overdue for more than six months) were NT\$1,453,280 thousand and NT\$1,183,527 thousand, respectively, to 'overdue receivables' account. These amounts included interest receivable of NT\$7,916 thousand and NT\$8,453 thousand, respectively.

## B. Movements in allowance for credit losses

Information as to the evaluations of impairment of the Bank and its subsidiaries' loans and receivables as of December 31, 2016 and 2015 was as follows:

## (A) Loans

Item		December 31, 2016			
		Loans (NT\$)	Loans (US\$)	Allowance for credit losses (NT\$)	Allowance for credit losses (US\$)
With existing objective evidence of individual impairment	Individual assessment	\$ 12,627,826	\$ 392,096	\$ 2,938,804	\$ 91,250
	Collective assessment	751,171	23,324	105,651	3,281
Without existing objective evidence of individual impairment	Collective assessment	1,728,594,001	53,673,042	23,649,777	734,328

Item		December 31, 2015	
		Loans (NT\$)	Allowance for credit losses (NT\$)
With existing objective evidence of individual impairment	Individual assessment	\$ 10,360,021	\$ 2,662,517
	Collective assessment	785,745	117,172
Without existing objective evidence of individual impairment	Collective assessment	1,785,589,517	20,686,540

## (B) Receivables:

Item		December 31, 2016			
		Receivables (NT\$)	Receivables (US\$)	Allowance for credit losses (NT\$)	Allowance for credit losses (US\$)
With existing objective evidence of individual impairment	Individual assessment	\$ 931,696	\$ 28,929	\$ 685,852	\$ 21,296
	Collective assessment	257,952	8,009	26,785	831
Without existing objective evidence of individual impairment	Collective assessment	59,664,281	1,852,583	716,101	22,235

Item		December 31, 2015	
		Receivables (NT\$)	Allowance for credit losses (NT\$)
With existing objective evidence of individual impairment	Individual assessment	\$ 115,941	\$ 79,253
	Collective assessment	268,100	26,795
Without existing objective evidence of individual impairment	Collective assessment	144,110,859	1,867,497

The Bank and its subsidiaries has provided appropriate allowance for credit losses for bills discounted and loans, accounts receivables, non-accrual loans transferred from overdue receivables and remittance purchased. Movements in allowance for credit losses for the years ended December 31, 2016 and 2015 were shown below:

	2016					
	NT\$					
	Receivables	Bills discounted and loans	Non-accrual loans transferred from overdue receivables	Remittance purchased	Import and export loans from bank	Total
Balance, January 1	\$ 1,973,545	\$ 23,466,229	\$ 2,879	\$ 113	\$ -	\$ 25,442,766
(Reversal) Provision	( 512,317 )	3,680,095	-	42	-	3,167,820
Write-off-net	( 103,837 )	( 1,749,761 )	-	-	-	( 1,853,598 )
Recovery of written-off credits	85,156	1,263,580	-	-	-	1,348,736
Effects of exchange rate changes and others	( 13,809 )	34,089	-	-	-	20,280
Balance, December 31	<u>\$ 1,428,738</u>	<u>\$ 26,694,232</u>	<u>\$ 2,879</u>	<u>\$ 155</u>	<u>\$ -</u>	<u>\$ 28,126,004</u>

	2016					
	US\$					
	Receivables	Bills discounted and loans	Non-accrual loans transferred from overdue receivables	Remittance purchased	Import and export loans from bank	Total
Balance, January 1	\$ 61,279	\$ 728,629	\$ 89	\$ 4	\$ -	\$ 790,001
(Reversal) Provision	( 15,908 )	114,268	-	1	-	98,361
Write-off-net	( 3,224 )	( 54,330 )	-	-	-	( 57,554 )
Recovery of written-off credits	2,644	39,234	-	-	-	41,878
Effects of exchange rate changes and others	( 429 )	1,058	-	-	-	629
Balance, December 31	<u>\$ 44,362</u>	<u>\$ 828,859</u>	<u>\$ 89</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 873,315</u>

	2015					
	NT\$					
	Receivables	Bills discounted and loans	Non-accrual loans transferred from overdue receivables	Remittance purchased	Import and export loans from bank	Total
Balance, January 1	\$ 1,620,552	\$ 21,920,032	\$ 8,230	\$ 74	\$ 750,371	\$ 24,299,259
Provision (Reversal)	368,653	( 1,824 )	( 192,643 )	39	( 750,371 )	( 576,146 )
Write-off-net	( 42,354 )	( 817,433 )	-	-	-	( 859,787 )
Recovery of written-off credits	101,074	2,347,007	187,292	-	-	2,635,373
Effects of exchange rate changes and others	( 74,380 )	18,447	-	-	-	( 55,933 )
Balance, December 31	<u>\$ 1,973,545</u>	<u>\$ 23,466,229</u>	<u>\$ 2,879</u>	<u>\$ 113</u>	<u>\$ -</u>	<u>\$ 25,442,766</u>

(6) Available-for-sale financial assets, net

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Stocks	\$ 7,662,393	\$ 237,918	\$ 8,823,548
Commercial papers	24,631,119	764,799	76,145,276
Bonds	169,615,230	5,266,572	134,546,263
Beneficiary securities	555,833	17,259	567,601
Beneficiary certificates	-	-	17,962
Certificates of deposit	3,658,813	113,607	12,414,190
Treasury securities	997,756	30,980	-
Subtotal	207,121,144	6,431,135	232,514,840
Adjustments for change in value of investment	( 508,694 )	( 15,795 )	( 165,475 )
Accumulated impairment loss	( 891,513 )	( 27,681 )	( 842,271 )
Total	<u>\$ 205,720,937</u>	<u>\$ 6,387,659</u>	<u>\$ 231,507,094</u>

A. As of December 31, 2016 and 2015, the aforementioned available-for-sale financial assets amounted to NT\$10,669,737 thousand and NT\$14,612,323 thousand, respectively, and were pledged to other parties as collateral for business reserves and guarantees.

B. As of December 31, 2016 and 2015, available-for-sale financial assets were sold under repurchase agreements with fair values of NT\$418,751 thousand and NT\$499,076 thousand, respectively.



- C. The Bank and its subsidiaries recognized gain (loss) of NT\$922,297 thousand and NT(\$1,474,828) thousand in other comprehensive income for fair value change for the years ended December 31, 2016 and 2015, respectively.
- D. The Bank and its subsidiaries recognized impairment loss for the long-term operating losses of the investee for the years ended December 31, 2016 and 2015. Details are provided in Note 6(29).
- E. The Bank and its subsidiaries recognized interest income of NT\$3,628,125 thousand and NT\$3,554,187 thousand on holding debt instruments for the years ended December 31, 2016 and 2015, respectively.
- F. For the years ended December 31, 2016 and 2015, amount realised and transferred from other equity in the statements of change in equity to current profit was NT\$1,295,542 thousand and NT\$886,419 thousand, respectively.
- G. In consideration of increasing capital returns, the Bank and its subsidiaries have invested in structured entities issued and managed by independent third parties-Residential Mortgage Backed Security, which are accounted for by the Bank and its subsidiaries under available-for-sale financial assets-beneficiary securities. The above-mentioned asset securitization products have maturity dates within April, 2035 to December, 2035.

As of December 31, 2016 and 2015, the book value and the maximum credit risk exposure of structured entities is NT\$60,173 thousand and NT\$110,025 thousand, respectively. The Bank and its subsidiaries recognized interest income of NT\$38,406 thousand and NT\$29,003 thousand on structured entities for the years ended December 31, 2016 and 2015, respectively.

(7) Held-to-maturity financial assets, net

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Central Bank's certificates of deposits	\$ 246,125,000	\$ 7,642,210	\$ 171,370,000
Bank's certificates of deposits	12,937,145	401,700	-
Financial bonds	14,308,432	444,278	20,920,762
Government bonds	3,026,002	93,958	3,826,080
Corporate bonds	2,894,589	89,877	3,411,698
Total	<u>\$ 279,291,168</u>	<u>\$ 8,672,023</u>	<u>\$ 199,528,540</u>

- A. As of December 31, 2016 and 2015, the aforementioned held-to-maturity financial assets amounted to NT\$5,276,900 thousand and NT\$5,546,000 thousand, respectively, were pledged to other parties as collateral of business reserves and guarantees.
- B. The Bank and its subsidiaries recognized interest income of NT\$1,973,226 thousand and NT\$1,845,127 thousand on holding held-to-maturity financial assets for the years ended December 31, 2016 and 2015, respectively.
- C. For held-to-maturity financial assets, as the credit rating of the issuer had been downgraded, the par value of disposed assets was USD 2 million and the loss on disposal was NT\$ 189 thousand. The disposal of investment amount constituted 0.02% of total investment balance on balance sheet date.

(8) Investments accounted for under the equity method, net

Investee Company	December 31, 2016		Percentage of Shareholding (%)
	NT\$	US\$	
Mega Management Consulting Co., Ltd.	\$ 66,316	\$ 2,059	100.00
Cathay Investment & Development Corporation (Bahamas)	60,195	1,869	100.00
Cathay Investment & Warehousing Co., S.A.	55,941	1,737	100.00
Ramlett Finance Holdings Inc.	6,931	215	100.00
Yung-Shing Industries Co.	690,960	21,454	99.56
China Products Trading Company	27,661	859	68.27
Mega 1 Venture Capital Co., Ltd.	27,997	869	25.00
An Feng Enterprise Co., Ltd.	11,844	368	25.00
Taiwan Finance Corporation	1,574,082	48,876	24.55
Everstrong Iron & Steel Foundry & Mfg. Corporation	43,457	1,349	22.22
China Real Estate Management Co., Ltd.	183,507	5,698	20.00
Universal Venture Capital Investment Corporation	138,127	4,289	11.84
Mega Growth Venture Capital Co., Ltd.	146,735	4,556	11.81
IP Fund Seven Limited (Note)	-	-	-
Total	<u>\$ 3,033,753</u>	<u>\$ 94,198</u>	

Investee Company	December 31, 2015	
	NT\$	Percentage of Shareholding (%)
Mega Management Consulting Co., Ltd.	\$ 62,367	100.00
Cathay Investment & Development Corporation (Bahamas)	58,935	100.00
Cathay Investment & Warehousing Co., S.A.	59,950	100.00
Ramlett Finance Holdings Inc.	5,902	100.00
Yung-Shing Industries Co.	668,539	99.56
China Products Trading Company	27,517	68.27
Mega 1 Venture Capital Co., Ltd.	27,323	25.00
An Feng Enterprise Co., Ltd.	11,911	25.00
Taiwan Finance Corporation	1,593,538	24.55
Everstrong Iron & Steel Foundry & Mfg. Corporation	43,379	22.22
China Real Estate Management Co., Ltd.	190,196	20.00
Universal Venture Capital Investment Corporation	-	-
Mega Growth Venture Capital Co., Ltd.	148,712	11.81
IP Fund Seven Limited (Note)	1,364	25.00
Total	\$ 2,899,633	

Note: The company had been incurring operating losses for a long period of time. As a result, the stockholders at their meeting resolved to liquidate the company and scheduled the liquidation registration in year 2015. The liquidation process had been completed on August 18, 2016.

- A. The carrying amount of the Bank and its subsidiaries' interests in all individually immaterial associates and the Bank and its subsidiaries' share of the operating results are summarized as follows:

	2016		2015
	NT\$	US\$	NT\$
Profit for the period	\$ 227,118	\$ 7,052	\$ 181,009
Other comprehensive (loss) income (after income tax)	( 62,565 )	( 1,943 )	21,698
Total comprehensive income	\$ 164,553	\$ 5,109	\$ 202,707

- B. The shares of associates and joint ventures that the Bank and its subsidiaries own have no quoted market price available in an active market. There is no significant restriction on fund transfer from the associates to their shareholders, i.e. distribution of cash dividends, repayment of loans or money advanced.
- C. As of December 31, 2016 and 2015, investments accounted for under the equity method were not pledged as collateral.
- D. The Bank's investment in Mega Growth Venture Capital Co., Ltd. accounted for an ownership percentage of 11.81%. However, the combined ownership percentage of the Bank, the Bank's subsidiaries and the Bank's parent company was over 20%, thus the investment is accounted for under the equity method.
- E. The ownership percentage of the Bank investment in Universal Venture Capital Investment Corporation is 11.84%. However, due to the Bank occupying 2 board seats of Universal Venture Capital Investment Corporation's total 11 board seats, and the Bank being elected as the chairman of the board, the Bank has influence over decision-making. Therefore, valuations are accounted for under the equity method.

(9) Other financial assets, net

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Remittance purchased	\$ 16,908	\$ 525	\$ 11,047
Equity investments carried at cost	10,692,246	331,995	10,890,821
Nonaccrual loans transferred from overdue receivables	5,608	174	5,626
Subtotal	10,714,762	332,694	10,907,494
Less: Allowance for bad debts – Remittance purchased	( 155 )	( 5 )	( 113 )
Less: Allowance for bad debts – Nonaccrual loans transferred from overdue receivables	( 2,879 )	( 89 )	( 2,879 )
Less: Accumulated impairment - Equity investments carried at cost	( 1,040,931 )	( 32,321 )	( 919,428 )
Total	\$ 9,670,797	\$ 300,279	\$ 9,985,074

- A. As unlisted shares the Bank owns have no quoted market price available in an active market and cannot be measured reliably, they are measured at cost.
- B. For the years ended December 31, 2016 and 2015, the Bank and its subsidiaries recognized the impairment loss due to investees operating at a loss over an extended period of time, please refer to Note 6(29).
- C. For the years ended December 31, 2016 and 2015, gain or loss arising from disposal and dividend income received from shares of the investee was NT\$803,272 thousand and NT\$764,288 thousand, respectively.

## (10) Property and equipment, net

	December 31, 2016			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In NT Thousand Dollars)			
Land and land improvements	\$ 9,291,941	\$ -	(\$ 77,786)	\$ 9,214,155
Buildings and auxiliary equipment	10,137,623	( 5,819,537)	( 2,158)	4,315,928
Computers and peripheral equipment	3,147,329	( 2,585,763)	-	561,566
Transportation and communication equipment	147,616	( 121,793)	-	25,823
Miscellaneous equipment	1,536,464	( 1,331,502)	-	204,962
	<u>\$ 24,260,973</u>	<u>(\$ 9,858,595)</u>	<u>(\$ 79,944)</u>	<u>\$ 14,322,434</u>

	December 31, 2016			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In US Thousand Dollars)			
Land and land improvements	\$ 288,516	\$ -	(\$ 2,415)	\$ 286,101
Buildings and auxiliary equipment	314,774	( 180,697)	( 67)	134,010
Computers and peripheral equipment	97,725	( 80,288)	-	17,437
Transportation and communication equipment	4,583	( 3,782)	-	801
Miscellaneous equipment	47,707	( 41,343)	-	6,364
	<u>\$ 753,305</u>	<u>(\$ 306,110)</u>	<u>(\$ 2,482)</u>	<u>\$ 444,713</u>

	December 31, 2015			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In NT Thousand Dollars)			
Land and land improvements	\$ 9,282,673	\$ -	(\$ 142,596)	\$ 9,140,077
Buildings and auxiliary equipment	10,122,738	( 5,714,212)	( 14,961)	4,393,565
Computers and peripheral equipment	3,172,897	( 2,681,254)	-	491,643
Transportation and communication equipment	155,890	( 124,408)	-	31,482
Miscellaneous equipment	1,525,297	( 1,303,474)	-	221,823
	<u>\$ 24,259,495</u>	<u>(\$ 9,823,348)</u>	<u>(\$ 157,557)</u>	<u>\$ 14,278,590</u>

	2016					
	Land and land improvements	Buildings and auxiliary equipment	Transportation and communication equipment	Computers and peripheral equipment	Miscellaneous equipment	Total
	(In NT Thousand Dollars)					
<b>Cost</b>						
Balance at January 1, 2016	\$ 9,282,673	\$ 10,122,738	\$ 155,890	\$ 3,172,897	\$ 1,525,297	\$ 24,259,495
Additions for the year	10,635	123,635	6,196	278,546	47,845	466,857
Disposals for the year	-	( 67,240)	( 12,653)	( 295,920)	( 38,178)	( 413,991)
Transfers in the current period	-	( 57)	-	( 30)	57	( 30)
Exchange adjustments	( 1,367)	( 41,453)	( 1,817)	( 8,164)	1443	( 51,358)
Balance at December 31, 2016	<u>9,291,941</u>	<u>10,137,623</u>	<u>147,616</u>	<u>3,147,329</u>	<u>1,536,464</u>	<u>24,260,973</u>
<b>Accumulated depreciation</b>						
Balance at January 1, 2016	\$ -	(\$ 5,714,212)	(\$ 124,408)	(\$ 2,681,254)	(\$ 1,303,474)	(\$ 9,823,348)
Depreciation for the year	-	( 201,572)	( 10,710)	( 205,618)	( 63,901)	( 481,801)
Disposals for the year	-	67,240	12,019	295,805	38,017	413,081
Transfers in the current period	-	57	7	( 7)	( 57)	-
Exchange adjustments	-	28,950	1,299	5,311	( 2,087)	33,473
Balance at December 31, 2016	-	( 5,819,537)	( 121,793)	( 2,585,763)	( 1,331,502)	( 9,858,595)
<b>Accumulated impairment</b>						
Balance at January 1, 2016	(\$ 142,596)	(\$ 14,961)	\$ -	\$ -	\$ -	(\$ 157,557)
Gain on reversal of impairment loss	64,810	12,803	-	-	-	77,613
Balance at December 31, 2016	( 77,786)	( 2,158)	-	-	-	( 79,944)
Net book value of December 31, 2016	<u>\$ 9,214,155</u>	<u>\$ 4,315,928</u>	<u>\$ 25,823</u>	<u>\$ 561,566</u>	<u>\$ 204,962</u>	<u>\$ 14,322,434</u>

## 2016

Cost	2016					Total
	Land and land improvements	Buildings and auxiliary equipment	Transportation and communication equipment	Computers and peripheral equipment	Miscellaneous equipment	
	(In US Thousand Dollars)					
Balance at January 1, 2016	\$ 288,228	\$ 314,312	\$ 4,840	\$ 98,519	\$ 47,361	\$ 753,260
Additions for the year	330	3,839	192	8,649	1,485	14,495
Disposals for the year	-	( 2,088 )	( 393 )	( 9,188 )	( 1,186 )	( 12,855 )
Transfers in the current period	-	( 2 )	-	( 1 )	2	( 1 )
Exchange adjustments	( 42 )	( 1,287 )	( 56 )	( 254 )	45	( 1,594 )
Balance at December 31, 2016	<u>288,516</u>	<u>314,774</u>	<u>4,583</u>	<u>97,725</u>	<u>47,707</u>	<u>753,305</u>
Accumulated depreciation						
Balance at January 1, 2016	\$ -	( \$ 177,427 )	( \$ 3,863 )	( \$ 83,253 )	( \$ 40,473 )	( \$ 305,016 )
Depreciation for the year	-	( 6,259 )	( 332 )	( 6,385 )	( 1,984 )	( 14,960 )
Disposals for the year	-	2,088	373	9,185	1,181	12,827
Transfers in the current period	-	2	-	-	( 2 )	-
Exchange adjustments	-	899	40	165	( 65 )	1,039
Balance at December 31, 2016	<u>-</u>	<u>( 180,697 )</u>	<u>( 3,782 )</u>	<u>( 80,288 )</u>	<u>( 41,343 )</u>	<u>( 306,110 )</u>
Accumulated impairment						
Balance at January 1, 2016	( \$ 4,427 )	( \$ 465 )	\$ -	\$ -	\$ -	( \$ 4,892 )
Gain on reversal of impairment loss	2,012	398	-	-	-	2,410
Balance at December 31, 2016	<u>( 2,415 )</u>	<u>( 67 )</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 2,482 )</u>
Net book value of December 31, 2016	<u>\$ 286,101</u>	<u>\$ 134,010</u>	<u>\$ 801</u>	<u>\$ 17,437</u>	<u>\$ 6,364</u>	<u>\$ 444,713</u>

## 2015

Cost	2015					Total
	Land and land improvements	Buildings and auxiliary equipment	Transportation and communication equipment	Computers and peripheral equipment	Miscellaneous equipment	
	(In NT Thousand Dollars)					
Balance at January 1, 2015	\$ 9,476,626	\$ 10,094,097	\$ 158,822	\$ 3,283,565	\$ 1,477,467	\$ 24,490,577
Additions for the year	-	43,322	20,716	245,888	77,594	387,520
Disposals for the year	-	( 20,179 )	( 22,582 )	( 355,760 )	( 25,128 )	( 423,649 )
Transfers in the current period	( 193,627 )	( 11,776 )	-	606	( 168 )	( 204,965 )
Exchange adjustments	( 326 )	17,274	( 1,066 )	( 1,402 )	( 4,468 )	10,012
Balance at December 31, 2015	<u>9,282,673</u>	<u>10,122,738</u>	<u>155,890</u>	<u>3,172,897</u>	<u>1,525,297</u>	<u>24,259,495</u>
Accumulated depreciation						
Balance at January 1, 2015	\$ -	( \$ 5,524,400 )	( \$ 136,587 )	( \$ 2,835,465 )	( \$ 1,264,530 )	( \$ 9,760,982 )
Depreciation for the year	-	( 200,848 )	( 10,643 )	( 202,801 )	( 66,743 )	( 481,035 )
Disposals for the year	-	20,179	22,130	355,583	25,216	423,108
Transfers in the current period	-	5,829	-	( 211 )	-	5,618
Exchange adjustments	-	( 14,972 )	692	1,640	2,583	( 10,057 )
Balance at December 31, 2015	<u>-</u>	<u>( 5,714,212 )</u>	<u>( 124,408 )</u>	<u>( 2,681,254 )</u>	<u>( 1,303,474 )</u>	<u>( 9,823,348 )</u>
Accumulated impairment						
Balance at January 1, 2015	( \$ 195,567 )	( \$ 31,706 )	\$ -	\$ -	\$ -	( \$ 227,273 )
Gain on reversal of impairment loss	52,971	16,745	-	-	-	69,716
Balance at December 31, 2015	<u>( 142,596 )</u>	<u>( 14,961 )</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 157,557 )</u>
Net book value of December 31, 2015	<u>\$ 9,140,077</u>	<u>\$ 4,393,565</u>	<u>\$ 31,482</u>	<u>\$ 491,643</u>	<u>\$ 221,823</u>	<u>\$ 14,278,590</u>

(blank below)

(11) Investment property, net

December 31, 2016			
Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
(In NT Thousand Dollars)			
Land and land improvements	\$ 764,955	\$ -	\$ 764,955
Buildings and auxiliary equipment	174,134	( 74,050 )	100,084
	<u>\$ 939,089</u>	<u>( \$ 74,050 )</u>	<u>\$ 865,039</u>

December 31, 2016			
Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
(In US Thousand Dollars)			
Land and land improvements	\$ 23,752	\$ -	\$ 23,752
Buildings and auxiliary equipment	5,407	( 2,299 )	3,108
	<u>\$ 29,159</u>	<u>( \$ 2,299 )</u>	<u>\$ 26,860</u>

December 31, 2015			
Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
(In NT Thousand Dollars)			
Land and land improvements	\$ 764,955	\$ -	\$ 764,955
Buildings and auxiliary equipment	174,442	( 71,340 )	103,102
	<u>\$ 939,397</u>	<u>( \$ 71,340 )</u>	<u>\$ 868,057</u>

- A. The fair value of the investment property held by the Bank and its subsidiaries as of December 31, 2016 and 2015 was NT\$3,280,811 thousand and NT\$3,124,338 thousand, respectively according to the result of valuation by an independent valuation expert using the comparison method and land development analysis approach, which is considered to be Level 2 within the fair value hierarchy.
- B. Rental income from the lease of the investment property for the years ended December 31, 2016 and 2015 was NT\$17,613 thousand and NT\$15,396 thousand, respectively; direct operating expenses incident to current rental income from investment property was NT\$11,969 thousand and NT\$9,700 thousand, respectively.
- C. For the rental revenue from the lease of the investment property among related parties, please refer to Note 11(3).
- D. None of the Bank's and its subsidiaries' investment property as at December 31, 2016 and 2015 have been pledged or provided as guarantees.

2016			
	Land and land improvements	Buildings and auxiliary equipment	Total
	NT\$	NT\$	NT\$
<u>Original cost</u>			
Balance at January 1, 2016	\$ 764,955	\$ 174,442	\$ 939,397
Exchange adjustments	-	( 308 )	( 308 )
Balance at December 31, 2016	<u>764,955</u>	<u>174,134</u>	<u>939,089</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2016	\$ -	( \$ 71,340 )	( \$ 71,340 )
Depreciation for the year	-	( 2,883 )	( 2,883 )
Exchange adjustments	-	173	173
Balance at December 31, 2016	<u>-</u>	<u>( 74,050 )</u>	<u>( 74,050 )</u>
	<u>\$ 764,955</u>	<u>\$ 100,084</u>	<u>\$ 865,039</u>

2016			
	Land and land improvements	Buildings and auxiliary equipment	Total
	US\$	US\$	US\$
<u>Original cost</u>			
Balance at January 1, 2016	\$ 23,752	\$ 5,416	\$ 29,168
Exchange adjustments	-	( 9 )	( 9 )
Balance at December 31, 2016	<u>23,752</u>	<u>5,407</u>	<u>29,159</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2016	\$ -	( \$ 2,215 )	( \$ 2,215 )
Depreciation for the year	-	( 89 )	( 89 )
Exchange adjustments	-	5	5
Balance at December 31, 2016	<u>-</u>	<u>( 2,299 )</u>	<u>( 2,299 )</u>
	<u>\$ 23,752</u>	<u>\$ 3,108</u>	<u>\$ 26,860</u>

	2015		
	Land and land improvements	Buildings and auxiliary equipment	Total
	NT\$	NT\$	NT\$
<u>Original cost</u>			
Balance at January 1, 2015	\$ 571,328	\$ 162,670	\$ 733,998
Transfers in the current period	193,627	11,776	205,403
Exchange adjustments	-	( 4 )	( 4 )
Balance at December 31, 2015	<u>764,955</u>	<u>174,442</u>	<u>939,397</u>
<u>Accumulated depreciation</u>			
Balance at January 1, 2015	\$ -	(\$ 62,803 )	(\$ 62,803 )
Depreciation for the year	-	( 2,710 )	( 2,710 )
Transfers in the current period	-	( 5,829 )	( 5,829 )
Exchange adjustments	-	2	2
Balance at December 31, 2015	<u>-</u>	<u>( 71,340 )</u>	<u>( 71,340 )</u>
	<u>\$ 764,955</u>	<u>\$ 103,102</u>	<u>\$ 868,057</u>

(12) Other assets, net

	December 31, 2016	
	NT\$	US\$
Temporary payments	\$ 750,000	\$ 23,288
Refundable deposits	424,942	13,194
Prepaid expenses	121,669	3,778
Other prepayments (Note)	29,244	908
Computer software	150,984	4,688
Other deferred assets	50,585	1,571
Others	94,261	2,927
Total	<u>\$ 1,621,685</u>	<u>\$ 50,354</u>

	December 31, 2015		January 1, 2015	
	NT\$	US\$	NT\$	US\$
Temporary payments	\$ 595,088	\$ 487,161		
Refundable deposits	407,745	624,431		
Prepaid expenses	129,479	104,118		
Other prepayments (Note)	90,854	17,480		
Computer software	162,543	199,990		
Other deferred assets	57,239	22,015		
Others	378	101,715		
Total	<u>\$ 1,443,326</u>	<u>\$ 1,556,910</u>		

Note: Please refer to Note 6(2) for detail of the reclassification of "other prepayments" to "due from the Central Bank and call loans to banks".

(13) Due to the Central Bank and commercial banks

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	US\$
Call loans from the Central Bank and banks	\$ 216,850,548	\$ 6,733,234	\$ 240,309,075	
Transfer deposits from China Post Co.	2,818,812	87,525	2,804,643	
Overdrafts from other banks	6,597,442	204,851	6,774,116	
Due to the financial institutions	44,551,667	1,383,334	40,166,749	
Due to the Central Bank	115,198,538	3,576,928	129,822,256	
Total	<u>\$ 386,017,007</u>	<u>\$ 11,985,872</u>	<u>\$ 419,876,839</u>	

(14) Borrowed funds

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	US\$
Refinancing to borrow funds from the Central Bank	\$ 5,909,170	\$ 183,481	\$ 6,528,240	
Other funds borrowed from the Central Bank	4,283,398	133,000	5,031,864	
Funds borrowed from other banks	29,781,859	924,730	33,898,990	
Total	<u>\$ 39,974,427</u>	<u>\$ 1,241,211</u>	<u>\$ 45,459,094</u>	

(15) Financial liabilities at fair value through profit or loss

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Financial liabilities held for trading:			
Derivative instruments	\$ 3,217,540	\$ 99,905	\$ 4,757,866
Financial liabilities designated as at fair value through profit or loss:			
Financial bonds	8,176,700	253,887	17,181,429
Total	\$ 11,394,240	\$ 353,792	\$ 21,939,295

A. Gain (loss) on financial assets and liabilities held for trading and gain (loss) on financial liabilities designated as at fair value through profit or loss recognized for the years ended December 31, 2016 and 2015 are provided in Note 6(27).

B. Financial liabilities designated at fair value through profit or loss by the Bank is for the purpose of eliminating recognition inconsistency.

(16) Payables

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Accounts payable	\$ 8,531,575	\$ 264,906	\$ 11,021,991
Bankers' acceptances	8,932,976	277,370	8,952,015
Dividends and bonus payable	5,679,263	176,342	5,679,263
Accrued interest	2,375,143	73,748	2,588,662
Accrued expense	3,435,119	106,661	4,796,367
Collections payable for customers	1,069,207	33,199	903,529
Other payables	2,126,256	66,021	2,007,110
Total	\$ 32,149,539	\$ 998,247	\$ 35,948,937

(17) Deposits and remittances

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Checking deposits	\$ 37,981,338	\$ 1,179,325	\$ 33,814,589
Demand deposits	678,871,749	21,079,046	675,995,986
Time deposits	750,665,209	23,308,241	838,334,616
Demand savings deposits	429,888,906	13,348,100	408,492,456
Time savings deposits	268,289,550	8,330,421	267,626,294
Negotiable certificates of deposit	1,544,100	47,944	1,870,100
Remittances	6,374,813	197,939	9,107,614
Total	\$ 2,173,615,665	\$ 67,491,016	\$ 2,235,241,655

(18) Financial bonds payable

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Subordinated Bonds	\$ 36,200,000	\$ 1,124,014	\$ 36,200,000

Financial bonds were as follows:

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2016		Remark
				NT\$	US\$	
99-1 Development Financial bond	2010.12.24-2017.12.24	1.53%	\$ 10,300,000	\$ 10,300,000	\$ 319,816	Interest is paid annually. The principal is repaid at maturity.
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	4,700,000	4,700,000	145,935	Interest is paid annually. The principal is repaid at maturity.
100-2 Development Financial bond	2011.11.24-2018.11.24	1.62%	7,900,000	7,900,000	245,296	Interest is paid annually. The principal is repaid at maturity.
101-1 Development Financial bond	2012.05.18-2019.05.18	1.48%	1,300,000	1,300,000	40,365	Interest is paid annually. The principal is repaid at maturity.
103-1 Development Financial bond	2014.03.28-2021.03.28	1.70%	4,900,000	4,900,000	152,146	Interest is paid annually. The principal is repaid at maturity.
103-2 Development Financial bond	2014.06.24-2021.06.24	1.65%	7,100,000	7,100,000	220,456	Interest is paid annually. The principal is repaid at maturity.
Total				\$ 36,200,000	\$ 1,124,014	

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2016		Remark
				US\$		
103-3 Financial bond	2014.11.19-2034.11.19	0.00%	US\$ 90,000	\$	-	The principal is repaid at maturity.
103-4 Financial bond	2014.11.19-2034.11.19	0.00%	US\$ 30,000		30,000	The principal is repaid at maturity.
103-5 Financial bond	2014.11.19-2034.11.19	0.00%	US\$ 130,000		130,000	The principal is repaid at maturity.
103-6 Financial bond	2014.11.19-2044.11.19	0.00%	US\$ 175,000		-	The principal is repaid at maturity.
103-7 Financial bond	2014.11.19-2044.11.19	0.00%	US\$ 75,000		75,000	The principal is repaid at maturity.
Total				\$	235,000	

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2015		Remark
				NT\$		
99-1 Development Financial bond	2010.12.24-2017.12.24	1.53%	\$ 10,300,000	\$	10,300,000	Interest is paid annually. The principal is repaid at maturity.
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	4,700,000		4,700,000	Interest is paid annually. The principal is repaid at maturity.
100-2 Development Financial bond	2011.11.24-2018.11.24	1.62%	7,900,000		7,900,000	Interest is paid annually. The principal is repaid at maturity.
101-1 Development Financial bond	2012.05.18-2019.05.18	1.48%	1,300,000		1,300,000	Interest is paid annually. The principal is repaid at maturity.
103-1 Development Financial bond	2014.03.28-2021.03.28	1.70%	4,900,000		4,900,000	Interest is paid annually. The principal is repaid at maturity.
103-2 Development Financial bond	2014.06.24-2021.06.24	1.65%	7,100,000		7,100,000	Interest is paid annually. The principal is repaid at maturity.
Total				\$	36,200,000	

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2015		Remark
				US\$		
103-3 Financial bond	2014.11.19-2034.11.19	0.00%	US\$ 90,000	\$	90,000	The principal is repaid at maturity.
103-4 Financial bond	2014.11.19-2034.11.19	0.00%	US\$ 30,000		30,000	The principal is repaid at maturity.
103-5 Financial bond	2014.11.19-2034.11.19	0.00%	US\$ 130,000		130,000	The principal is repaid at maturity.
103-6 Financial bond	2014.11.19-2044.11.19	0.00%	US\$ 175,000		175,000	The principal is repaid at maturity.
103-7 Financial bond	2014.11.19-2044.11.19	0.00%	US\$ 75,000		75,000	The principal is repaid at maturity.
Total				\$	500,000	

As of December 31, 2016 and 2015, the outstanding balances of the above mentioned financial bonds amounted to US\$235 million and US\$500 million, and NT\$36.2 billion and NT\$36.2 billion, respectively. In addition, among the above financial bonds, the senior financial bonds with face value of US\$235 million and US\$500 million were designated as financial liabilities at fair value through profit or loss and hedged by interest rate swap contracts. As such interest rate swap contracts were valued at fair value with changes in fair value recognized as profit or loss, the financial bonds stated above were designated as financial liabilities at fair value through profit or loss in order to eliminate or significantly reduce recognition inconsistency.

(19) Provisions

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	US\$
Liabilities reserve for employee benefits	\$ 9,262,357	\$ 287,597	\$ 8,682,538	
Reserve for guarantee liabilities	3,691,076	114,609	3,240,886	
Total	\$ 12,953,433	\$ 402,206	\$ 11,923,424	

Liabilities reserve for employee benefits are as follows:

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	US\$
Recognized in consolidated balance sheet:				
-Defined benefit plans	\$ 5,718,311	\$ 177,554	\$ 5,579,717	
-Employee preferential savings plans	3,544,046	110,043	3,102,821	
Total	\$ 9,262,357	\$ 287,597	\$ 8,682,538	



A. Defined benefit plans

(A) The Bank has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Bank and its subsidiaries contribute monthly an amount equal to 8.766% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Bank would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Bank will make contributions to cover the deficit by next March.

(B) The amounts recognized in the balance sheet are determined as follows:

	December 31, 2016		December 31, 2015
	NTS	US\$	NTS
Present value of funded obligations	\$ 15,585,176	\$ 483,921	\$ 15,759,783
Fair value of plan assets	( 9,866,865 )	( 306,367 )	( 10,180,066 )
Net defined benefit liability	<u>\$ 5,718,311</u>	<u>\$ 177,554</u>	<u>\$ 5,579,717</u>

(C) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
	(In NT Thousand Dollars)		
Year ended December 31, 2016			
Balance at January 1	\$ 15,759,783	( \$ 10,180,066 )	\$ 5,579,717
Current service cost	451,430	-	451,430
Interest expense (income)	192,304	( 125,818 )	66,486
	<u>16,403,517</u>	<u>( 10,305,884 )</u>	<u>6,097,633</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	55,644	55,644
Change in financial assumptions	396,082	-	396,082
Experience adjustments	82,611	-	82,611
	<u>478,693</u>	<u>55,644</u>	<u>534,337</u>
Pension fund contribution	-	( 913,659 )	( 913,659 )
Paid Pension	( 1,297,034 )	1,297,034	-
Balance at December 31	<u>\$ 15,585,176</u>	<u>( \$ 9,866,865 )</u>	<u>\$ 5,718,311</u>

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
	(In US Thousand Dollars)		
Year ended December 31, 2016			
Balance at January 1	\$ 489,343	( \$ 316,092 )	\$ 173,251
Current service cost	14,017	-	14,017
Interest expense (income)	5,971	( 3,907 )	2,064
	<u>509,331</u>	<u>( 319,999 )</u>	<u>189,332</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	1,728	1,728
Change in financial assumptions	12,298	-	12,298
Experience adjustments	2,565	-	2,565
	<u>14,863</u>	<u>1,728</u>	<u>16,591</u>
Pension fund contribution	-	( 28,369 )	( 28,369 )
Paid Pension	( 40,273 )	40,273	-
Balance at December 31	<u>\$ 483,921</u>	<u>( \$ 306,367 )</u>	<u>\$ 177,554</u>

	Present value of defined benefit obligation	Fair value of plan assets (In NT Thousand Dollars)	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	\$ 14,491,116	(\$ 10,075,418)	\$ 4,415,698
Current service cost	415,127	-	415,127
Interest expense (income)	247,537	(174,823)	72,714
	<u>15,153,780</u>	<u>(10,250,241)</u>	<u>4,903,539</u>
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expense)	-	(93,043)	(93,043)
Change in financial assumptions	1,049,529	-	1,049,529
Experience adjustments	442,257	-	442,257
	<u>1,491,786</u>	<u>(93,043)</u>	<u>1,398,743</u>
Pension fund contribution	-	(722,565)	(722,565)
Paid Pension	(885,783)	885,783	-
Balance at December 31	<u>\$ 15,759,783</u>	<u>(10,180,066)</u>	<u>\$ 5,579,717</u>

(D) The Bank of Taiwan was commissioned to manage the Fund of the Bank's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.), and the performance of fund utilization is supervised by the Labor Funds Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Bank has no right to participate in managing and operating that fund and hence the Bank is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2016 and 2015 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(E) The principal actuarial assumptions used were as follows:

	2016	2015
Discount rate	1.00%	1.25%
Rate of future salary increases	2.00%	2.00%

Assumptions regarding future mortality rate are set based on the 5th Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Rate of future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
	(In NT Thousand Dollars)			
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 396,082)	\$ 370,000	\$ 365,391	(\$ 353,712)

	Discount rate		Rate of future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
	(In US Thousand Dollars)			
December 31, 2016				
Effect on present value of defined benefit obligation	(\$ 12,298)	\$ 11,489	\$ 11,345	(\$ 10,983)

	Discount rate		Rate of future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
	(In NT Thousand Dollars)			
December 31, 2015				
Effect on present value of defined benefit obligation	(\$ 363,207)	\$ 377,445	\$ 373,683	(\$ 361,456)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(F) Expected contributions to the defined benefit pension plans of the Bank for the year ending December 31, 2017 amounts to NT\$420,000 thousand.

(G) As of December 31, 2016, the weighted average duration of that retirement plan is 8.88 years.

B. Defined contribution plans

(A) Effective July 1, 2005, the Bank has established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”). Employees have the option to be covered under the New Plan. Under the New Plan, the Bank contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees’ individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum.

(B) The pension costs under the defined contribution pension plan for the years ended December 31, 2016 and 2015 were NT\$88,147 thousand and NT\$83,678 thousand, respectively. For employees working overseas, pension expenses under defined contribution plans are recognized according to the respective local regulations. For the years ended December 31, 2016 and 2015, pension expenses were NT\$23,093 thousand and NT\$21,205 thousand, respectively.

C. The Bank’s payment obligations of fixed-amount preferential savings of retired employees and current employees after retirement are in compliance with the internal “Rules Governing Pension Preferential Savings of Staff of Mega International Commercial Banks”. The excessive interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be accounted for in accordance with IAS 19, “Employee Benefits”.

(A) Adjustment of assets and liabilities recognized in the consolidated balance sheets, present value of defined benefit obligation, and fair value of plan assets:

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Present value of defined benefit obligation	\$ 3,544,046	\$ 110,043	\$ 3,102,821
Less: Fair value of plan assets	-	-	-
	<u>\$ 3,544,046</u>	<u>\$ 110,043</u>	<u>\$ 3,102,821</u>

(B) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
	(In NT Thousand Dollars)		
Year ended December 31, 2016			
Balance at January 1	\$ 3,102,821	\$ -	\$ 3,102,821
Interest expense	118,458	-	118,458
	<u>3,221,279</u>	<u>-</u>	<u>3,221,279</u>
Remeasurements:			
Change in demographic assumptions	584,751	-	584,751
Experience adjustments	365,420	-	365,420
	<u>950,171</u>	<u>-</u>	<u>950,171</u>
Pension fund contribution	-	( 627,404 )	( 627,404 )
Paid Pension	( 627,404 )	627,404	-
Balance at December 31	<u>\$ 3,544,046</u>	<u>\$ -</u>	<u>\$ 3,544,046</u>

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
	(In US Thousand Dollars)		
Year ended December 31, 2016			
Balance at January 1	\$ 96,343	\$ -	\$ 96,343
Interest expense	3,678	-	3,678
	<u>100,021</u>	<u>-</u>	<u>100,021</u>
Remeasurements:			
Change in demographic assumptions	18,157	-	18,157
Experience adjustments	11,346	-	11,346
	<u>29,503</u>	<u>-</u>	<u>29,503</u>
Pension fund contribution	-	( 19,481 )	( 19,481 )
Paid Pension	( 19,481 )	19,481	-
Balance at December 31	<u>\$ 110,043</u>	<u>\$ -</u>	<u>\$ 110,043</u>

	Present value of defined benefit obligation	Fair value of plan assets (In NT Thousand Dollars)	Net defined benefit liability
Year ended December 31, 2015			
Balance at January 1	\$ 2,832,960	\$ -	\$ 2,832,960
Interest cost	108,208	-	108,208
	<u>2,941,168</u>	<u>-</u>	<u>2,941,168</u>
Remeasurements:			
Change in demographic assumptions	347,480	-	347,480
Experience adjustments	366,829	-	366,829
	<u>714,309</u>	<u>-</u>	<u>714,309</u>
Pension fund contribution	-	( 552,656 )	( 552,656 )
Paid Pension	( 552,656 )	552,656	-
Balance at December 31	<u>\$ 3,102,821</u>	<u>\$ -</u>	<u>\$ 3,102,821</u>

(C) Actuarial assumptions are as follows:

	2016	2015
Discount rate for employee preferential interest savings	4.00%	4.00%
Return rate on capital deposited	2.00%	2.00%
Annual decreasing ratio for account balance	1.00%	1.00%
Probability of change in preferential savings system in the future	50.00%	50.00%

Because the main actuarial assumption changed, the present value of employee preferential interest savings obligation is affected. The analysis was as follows:

	Discount rate		Rate of deposit cost	
	Increase 0.25%	Decrease 0.25%	Increase 0.05%	Decrease 0.05%
(In NT Thousand Dollars)				
December 31, 2016				
Effect on present value of defined benefit obligation	( \$ 72,311 )	\$ 75,075	( \$ 17,003 )	\$ 17,003

	Discount rate		Rate of deposit cost	
	Increase 0.25%	Decrease 0.25%	Increase 0.05%	Decrease 0.05%
(In US Thousand Dollars)				
December 31, 2016				
Effect on present value of defined benefit obligation	( \$ 2,245 )	\$ 2,331	( \$ 528 )	\$ 528

	Discount rate		Rate of deposit cost	
	Increase 0.25%	Decrease 0.25%	Increase 0.05%	Decrease 0.05%
(In NT Thousand Dollars)				
December 31, 2015				
Effect on present value of defined benefit obligation	( \$ 63,938 )	\$ 66,406	( \$ 15,190 )	\$ 15,190

(D) The Bank recognized employee benefit expenses of NT\$1,245,291 thousand and NT\$980,746 thousand for the years ended December 31, 2016 and 2015, respectively.

D. Reserve for guarantee liabilities

The Bank had provided appropriate reserve for guarantee liabilities based on the guarantee reserve assessed. The details and movements of reserve for guarantee liabilities for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015
	NT\$	US\$	NT\$
Balance at January 1	\$ 3,240,886	\$ 100,630	\$ 3,204,543
Provision	452,003	14,035	32,254
Effects of exchange rate changes and others	( 1,813 )	( 56 )	4,089
Balance at December 31	<u>\$ 3,691,076</u>	<u>\$ 114,609</u>	<u>\$ 3,240,886</u>

(20) Other financial liabilities

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Appropriation for loans	\$ 1,529,903	\$ 47,504	\$ 1,548,053
Structured deposits	7,054,086	219,030	7,125,170
Total	<u>\$ 8,583,989</u>	<u>\$ 266,534</u>	<u>\$ 8,673,223</u>

(21) Other liabilities

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Deposits received	\$ 1,525,090	\$ 47,354	\$ 2,158,271
Advance receipt	1,823,612	56,623	2,956,846
Temporary credits	1,145,758	35,576	3,095,033
Other liabilities to be settled	431,815	13,408	437,355
Others	332,072	10,311	329,652
Total	<u>\$ 5,258,347</u>	<u>\$ 163,272</u>	<u>\$ 8,977,157</u>

(22) Equity

A. Common stock

As of December 31, 2016 and 2015, the Bank's authorized and paid-in capital was NT\$85,362,336 thousand and outstanding shares were 8,536,234 thousand, with a par value of NT\$10 per share.

On November 7, 2014 and November 6, 2015, the Board of Directors on behalf of the stockholders' meeting resolved for a private placement capital increase of NT\$3,000,000 thousand and NT\$5,362,336 thousand, respectively, issuing 300,000 thousand shares and 536,234 thousand shares of common stock, respectively. All shares have been planned to be acquired by the Bank's parent company, Mega Financial Holding Co. Ltd. (Mega Financial Holding), for NT\$28.41 per share and NT\$29.02 per share, respectively. The authorized and actual paid-in capital after the capital increase was NT\$80,000,000 thousand and NT\$85,362,336 thousand, respectively. The applications for capital increases have been approved by the FSC and the effective date of the capital increases was on June 11, 2015 and December 30, 2015, respectively. The total issued capital after the capital increase was NT\$80,000,000 thousand and NT\$85,362,336 thousand, respectively, and issued shares were 8,000,000 thousand and 8,536,234 thousand, respectively, with a par value of NT\$10 per share.

B. Capital reserve

(A) Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Bank has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(B) On December 31, 2016 and 2015, the details of the Bank's capital surplus are as follows:

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Capital increase by cash – additional paid-in capital	\$ 31,495,952	\$ 977,953	\$ 31,495,952
Consolidation surplus arising from share conversion	30,109,277	934,897	30,109,277
Changes in additional paid-in capital of investees accounted for by the equity method	375,908	11,672	375,908
Share-based payment (Note)	238,403	7,402	238,403
	<u>\$ 62,219,540</u>	<u>\$ 1,931,924</u>	<u>\$ 62,219,540</u>

Note: above-mentioned share-based payment includes the subsidiaries.

C. Legal reserve and Special reserve

(A) Legal reserve

Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Bank's paid-in capital. As of December 31, 2016 and 2015, the Bank's legal reserves are NT\$73,987,859 thousand and NT\$66,275,325 thousand, respectively.

(B) Special reserve

In accordance with Financial-Supervisory-Securities-Corporate No. 1010012865 of the FSC dated on April 6, 2012, upon the first-time adoption of IFRSs, equivalent amounts of special reserve with regard to the unrealized revaluation increment under the stockholders' equity and cumulative translation adjustment (gains) transferred to retained earnings should be set aside. For the said

special reserve, reversal of distributed earnings shall be based on the proportion of the original ratio of special reserve provision in the subsequent use, disposal or reclassification for the related assets. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land. If the assets are investment property other than land, the amounts are reversed over the use period and should be reversed by amortized balance upon disposal. As of December 31, 2016 and 2015, the special reserve of the Bank were NT\$3,873,832 thousand and NT\$3,845,354 thousand, respectively.

In accordance with the regulations, the Bank shall set aside an equivalent amount of special reserve from earnings after tax of the current year and the undistributed earnings of the prior period based on the net decreased amount of other stockholders' equity in the current period before distributing earnings. If there is any reversal of decrease in other stockholders' equity, the earnings may be distributed based on the reversal proportion.

In accordance with Financial-Supervisory-Banks Letter No. 10510001510, as a response to the development of financial technology, and to ensure the rights of bank practitioners, the Bank shall, upon appropriating the earnings of 2016 to 2018, provision 0.5% to 1% of income after taxes as special reserve. Starting from the 2017 accounting year, public banks may reverse an amount of the aforementioned special reserve commensurate to employee termination or arrangement expenditures resulting from the development of financial technology.

(23) Retained earnings and dividend policies

- A. The current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings plus prior year's accumulated unappropriated earnings are subject to the Board of Directors' proposal for a distribution plan and approval by the stockholders at the Ordinary Stockholders' Meeting.
- B. The legal reserve is to be used exclusively to offset any deficit or to increase capital by issuing new shares or distribute cash dividends according to original shareholders in proportion to the number of shares being held by each of them and is not to be used for any other purposes. For the legal reserve to be used for issuing new shares or distributing cash dividends, only the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or released.
- C. Shareholders other than those not living in ROC have imputation tax credit for the distribution of earnings after (in) 1998 based on the creditable tax rate on the dividend declaration day.

As of December 31, 2016 and 2015, cumulative unappropriated retained earnings recorded in the books were all earnings generated in and after 1998.

- D. The appropriations and distributions for 2015 and 2014 approved by the Bank's Board of Directors on the stockholders' behalf on May 13, 2016 and April 24, 2015, respectively, were as follows:

	2015	2014
	NT\$	NT\$
Legal reserve	\$ 7,712,534	\$ 7,791,990
Special reserve	28,478	25,253
Cash dividends (NT\$1.50 and NT\$1.44 dollar per share)	12,804,350	11,088,000
	<u>\$ 20,545,362</u>	<u>\$ 18,905,243</u>

Information on the appropriation of the Bank's earnings as approved by the Board of Directors and during the shareholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

- E. The appropriation of 2016 earnings resolved by the Board of Directors on March 24, 2017 is set forth below:

	2016	
	NT\$	US\$
Legal reserve	\$ 5,702,988	\$ 177,078
Special reserve	126,223	3,919
Cash dividends (NT\$1.50 dollar per share)	12,804,350	397,577
	<u>\$ 18,633,561</u>	<u>\$ 578,574</u>

- F. For information related to employees' compensation, please refer to Note 6(33).

(24) Other equity

	Cumulative translation differences of foreign operations	Available-for-sale financial assets	Total
	NT\$		
January 1, 2016	\$ 331,363	( \$ 102,347 )	\$ 229,016
Available-for-sale financial assets			
Evaluation adjustment for the year	-	922,297	922,297
Realized gain and loss for the year	-	( 1,295,542 )	( 1,295,542 )
Cumulative translation differences of foreign operations	( 1,255,005 )	-	( 1,255,005 )
Share of other comprehensive income of associates and joint ventures accounted for under equity method	( 2,591 )	( 59,974 )	( 62,565 )
December 31, 2016	<u>( \$ 926,233 )</u>	<u>( \$ 535,566 )</u>	<u>( \$ 1,461,799 )</u>

	Cumulative differences of foreign operations	Available-for-sale financial assets	Total
	US\$		
January 1, 2016	\$ 10,289	(\$ 3,178)	\$ 7,111
Available-for-sale financial assets			
Evaluation adjustment for the year	-	28,638	28,638
Realized gain and loss for the year	-	(40,227)	(40,227)
Cumulative translation differences of foreign operations	(38,968)	-	(38,968)
Share of other comprehensive income of associates and joint ventures accounted for under equity method	(81)	(1,862)	(1,943)
December 31, 2016	<u>(\$ 28,760)</u>	<u>(\$ 16,629)</u>	<u>(\$ 45,389)</u>

	Cumulative differences of foreign operations	Available-for-sale financial assets	Total
	NT\$		
January 1, 2015	\$ 550,023	\$ 2,239,841	\$ 2,789,864
Available-for-sale financial assets			
Evaluation adjustment for the year	-	(1,474,828)	(1,474,828)
Realized gain and loss for the year	-	(886,419)	(886,419)
Cumulative translation differences of foreign operations	(221,299)	-	(221,299)
Share of other comprehensive income of associates and joint ventures accounted for under equity method	2,639	19,059	21,698
December 31, 2015	<u>\$ 331,363</u>	<u>(\$ 102,347)</u>	<u>\$ 229,016</u>

(25) Net interest income

	For the years ended December 31		
	2016		2015
	NT\$	US\$	NT\$
<u>Interest income</u>			
Discount and loan interest income	\$ 38,730,900	\$ 1,202,599	\$ 38,421,717
Deposit and loan interest income of banks	5,030,123	156,186	5,000,034
Securities investment interest income	5,601,350	173,923	5,399,314
Interest income of forfeiting purchased	869,183	26,988	3,647,452
Interest income of factoring acceptances receivable	277,965	8,631	290,015
Credit card interest income	174,441	5,416	202,500
Interest income from buyout of documents against acceptance	15,749	489	519,504
Other interest income	178,240	5,534	398,737
Subtotal	<u>50,877,951</u>	<u>1,579,766</u>	<u>53,879,273</u>
<u>Interest expenses</u>			
Deposit interest expense	(\$ 12,077,235)	(\$ 375,000)	(\$ 13,814,915)
The Central Bank and the bank deposit interest expense	(2,541,727)	(78,921)	(2,751,365)
Interest expense of securities sold under repurchase agreements	(15,085)	(468)	(344,480)
Bond interest expense	(582,811)	(18,096)	(844,776)
Other interest expense	(77,453)	(2,405)	(77,787)
Subtotal	<u>(15,294,311)</u>	<u>(474,890)</u>	<u>(17,833,323)</u>
Total	<u>\$ 35,583,640</u>	<u>\$ 1,104,876</u>	<u>\$ 36,045,950</u>

(26) Net service fee income

	For the years ended December 31		
	2016		2015
	NT\$	US\$	NT\$
<u>Service fee income</u>			
Loan service fee income	\$ 1,941,867	\$ 60,295	\$ 2,106,459
Trust service fee income	1,560,220	48,445	1,995,100
Agent service fee income	1,185,458	36,809	948,708
Remittance service fee income	975,766	30,298	1,010,671
Guarantee service fee income	913,124	28,353	925,393
Import and export service fee income	607,319	18,857	656,531
Credit card service fee income	504,421	15,662	520,350
Other fee income	1,082,687	33,617	1,299,158
Subtotal	<u>8,770,862</u>	<u>272,336</u>	<u>9,462,370</u>
<u>Service fee charges</u>			
Agent service fee	(\$ 641,953)	(\$ 19,933)	(\$ 621,527)
Custody fee	(51,674)	(1,604)	(60,389)
Other charges	(169,502)	(5,263)	(180,533)
Subtotal	<u>(863,129)</u>	<u>(26,800)</u>	<u>(862,449)</u>
Total	<u>\$ 7,907,733</u>	<u>\$ 245,536</u>	<u>\$ 8,599,921</u>

The Bank and its subsidiaries provide custody, trust, and investment management and consultation service to the third party, and therefore the Bank and its subsidiaries are involved with the exercise of planning, managing and trading decision of financial instruments. In relation to the management and exercise of trust fund and portfolio for brokerage, the Bank and its subsidiaries record and prepare the financial statements independently for internal management purposes, which are not included in the financial statements of the Bank and its subsidiaries.

(27) Gain (loss) on financial assets and liabilities at fair value through profit or loss

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
<u>Realized gain or loss on financial assets and financial liabilities at fair value through profit or loss</u>			
Bond	\$ 33,873	\$ 1,052	\$ 2,568,339
Stock	105,716	3,282	( 144,709)
Interest rate	271,726	8,437	471,316
Exchange rate	947,662	29,425	( 1,203,728)
Options	141,250	4,386	( 2,218,542)
Futures	1,347	42	730
Asset swap contracts	( 16,269)	( 505)	( 57,521)
Credit default swap	488,939	15,181	320,515
Cross currency swap	( 27,603)	( 857)	( 2,514)
Others	( 16,135)	( 501)	( 7,501)
Subtotal	<u>1,930,506</u>	<u>59,942</u>	<u>( 273,615)</u>
<u>Unrealized gain or loss on financial assets and financial liabilities at fair value through profit or loss</u>			
Bond	( 33,862)	( 1,051)	( 3,060,075)
Stock	165,558	5,141	( 332,642)
Interest rate	92,426	2,870	( 380,233)
Exchange rate	229,056	7,112	( 92,316)
Options	( 32,634)	( 1,013)	2,509,361
Futures	108	3	( 107)
Asset swap contracts	13,016	404	486,947
Credit default swap	136,973	4,253	( 258,604)
Cross currency swap	( 9,364)	( 291)	34,497
Subtotal	<u>561,277</u>	<u>17,428</u>	<u>( 1,093,172)</u>
Dividend income on financial assets at fair value through profit or loss	120,832	3,752	91,755
Interest income on financial assets at fair value through profit or loss	1,051,727	32,656	831,678
Interest expense on financial liabilities at fair value through profit or loss	( 654,745)	( 20,330)	( 711,993)
Total	<u>\$ 3,009,597</u>	<u>\$ 93,448</u>	<u>( \$ 1,155,347)</u>

Net income on the exchange rate instrument includes realized and unrealized gains and losses on forward exchange agreement, FX options, and exchange rate futures.

Interest-linked instruments include interest rate swap contracts, money market instruments, interest linked-options and other interest related instruments.

(28) Realized gains on available-for-sale financial assets

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Dividend income	\$ 301,174	\$ 9,351	\$ 304,565
Realized net gains or losses			
Fund	( 812)	( 25)	7,631
Bond	298,936	9,282	58,844
Stock	997,418	30,970	819,944
Total	<u>\$ 1,596,716</u>	<u>\$ 49,578</u>	<u>\$ 1,190,984</u>

(29) Loss on asset impairment

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Equity investments carried at cost	\$ 308,670	\$ 9,584	\$ 204,074
Available-for-sale-financial assets	103,340	3,209	353,294
Gain on reversal of impairment loss on property and equipment	( 77,613)	( 2,410)	( 69,716)
Total	<u>\$ 334,397</u>	<u>\$ 10,383</u>	<u>\$ 487,652</u>



After the Bank's assessment, the above-mentioned financial assets have provisioned impairment losses due to objective evidences indicating impairment. For the year ended December 31, 2016, relatively significant impairments were for Residential Mortgage Backed Security (accounted for as available-for-sale), Kuang Ming Shipping Corp., NexPower Technology Corp. and Everest Display Inc. (the latter three were accounted for as those measured at cost), which provisioned impairment amounts of NT\$97,871 thousand, NT\$78,540 thousand, NT\$42,300 thousand and NT\$27,511, respectively.

(30) Other revenue other than interest income

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Net income from rent	\$ 186,847	\$ 5,802	\$ 184,318
Gain on sale of non-performing loans	40,508	1,258	137,841
Gain on sales of property and equipment	1,142	36	2,893
Casualty loss	( 82 )	( 3 )	-
Loss on retirement of assets	( 253 )	( 8 )	( 541 )
Total	\$ 228,162	\$ 7,085	\$ 324,511

(31) Indemnity income

	For the years ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Indemnity income	\$ -	\$ -	\$ 1,717,260

Taiwan High Speed Rail Corporation ("THSRC") was in arrears with preferred stock dividends from January 5, 2007 to August 6, 2015 for "Class A convertible bearer preferred stock" held by the Bank, totaling NT\$1,717,260 thousand. In order to execute the supporting measures of the "Taiwan High Speed Rail Corporation's Financial Solution Plan", pursuant to the resolution by THSRC's special stockholders' meetings on September 10, 2015, unpaid preferred stock dividends will be satisfied in the form of compensation. The above-mentioned amount has been received the compensation for unpaid preferred stock from THSRC on January 20, 2016.

(32) Net other miscellaneous loss (income)

	For the years ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Other revenue	\$ 298,860	\$ 9,280	\$ 147,451
Penalty paid to New York State Department of Financial Services (Note)	( 5,797,854 )	( 180,024 )	-
Total	( \$ 5,498,994 )	( \$ 170,744 )	\$ 147,451

The Bank and Mega New York Branch entered into a Consent Order with New York State Department of Financial Services (NYDFS) on August 19, 2016. As per the consent order, NYDFS fined the Bank and Mega New York Branch for failure to establish an adequate anti-money laundering compliance program and non-compliance with BSA (Bank Secrecy Act)/AML (Anti-Money Laundering laws) and paid a penalty of US\$180 million (approximately NT\$5,797,854 thousand). In addition, under the Consent Order issued by NYDFS, the Bank and Mega New York Branch engaged a compliance consultant selected by NYDFS, to enhance the compliance of the AML and retain an independent monitor to be selected by NYDFS to review the Mega New York Branch's U.S dollar clearing transaction activity from January 1, 2012 to December 31, 2014 for determining whether any transactions were in violation of BSA/AML and OFAC (Office of Foreign Assets Control of United States Department of Treasury) Regulations.

As of the report date of this financial report, NYDFS has yet to designate an independent monitor. Thus, there are no examination results for the above-mentioned transaction.

(33) Employee benefits expenses

	For the years ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Payroll expense	\$ 8,446,411	\$ 262,262	\$ 9,954,640
Preferential interest deposit for retired employees	1,245,291	38,667	980,746
Pension	629,156	19,535	592,724
Staff insurance	621,132	19,286	613,571
Other staff expenses	978,219	30,374	1,129,779
Total	\$ 11,920,209	\$ 370,124	\$ 13,271,460

1. Please refer to Note 1(5) for information on number of employee, the calculating basis was in agreement with employee benefit expense excluding preferential interest deposit for retired employees.

2. The Board of Directors of the Bank has approved the amended Articles of Incorporation of the Bank on February 5, 2016, and the amended article was resolved in the shareholder's meeting on March 25, 2016. According to the amended articles, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation. In case there are earnings at the end of each fiscal year, the employees' compensation of the Bank shall be 1.7% of the amount of net profit before income tax and employees' compensation, which, in any event, shall not be less than 2.4% of the aggregate amount of the balance of earnings after taxes deduct the amount of the legal reserve and special reserve (or plus the reversible special reserve in accordance with relevant laws and regulations) at the end of each fiscal year, provided that the accumulated losses of the Bank in previous fiscal years have been covered.
3. For the years ended December 31, 2016 and 2015, employees' compensation was accrued at NT\$400,225 thousand and NT\$523,000 thousand, respectively. The above-mentioned amounts were recognized in salary expenses.

The employees' compensation resolved by the Board of Directors was NT\$398,791 thousand, which resulted in a difference of NT\$1,434 thousand as compared to the recognized amount of \$400,255 in the 2016 financial statements. The difference is accounted for as a change in estimate and has been adjusted in the profit or loss of 2017. The above-mentioned employees' compensation will be distributed in the form of cash.

The employees' compensation resolved by the Board of Directors was NT\$523,141 thousand, which resulted in a difference of NT\$141 thousand as compared to the recognized amount of \$523,000 in the 2015 financial statements. The difference is accounted for as a change in estimate and has been adjusted in the profit or loss of 2016.

Information about employees' compensation of the Bank as resolved by the Board of Directors and the shareholders at the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(34) Depreciation and amortization

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Depreciation	\$ 484,684	\$ 15,049	\$ 483,745
Amortization	5,695	177	3,922
Total	\$ 490,379	\$ 15,226	\$ 487,667

(35) Other general and administrative expenses

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Taxes	\$ 2,241,019	\$ 69,584	\$ 2,392,412
Rental	777,716	24,148	845,459
Computer software maintenance fees	476,756	14,803	429,580
Water and electricity	120,851	3,752	138,863
Postage	212,203	6,589	209,332
Advertising and printing cost	151,769	4,712	170,188
Business development	297,439	9,236	292,823
Professional expense	608,141	18,883	411,739
Insurance charges	447,493	13,895	399,065
Shipping expenses	196,785	6,110	195,495
Donation expenses (Note)	102,560	3,185	340,689
Others	856,217	26,586	880,133
Total	\$ 6,488,949	\$ 201,483	\$ 6,705,778

Note: In order to successfully recover its creditor's rights under the credit case provided to Hua-Long Co., and to facilitate social stability, on November 7, 2014, the Board of Directors on behalf of the stockholders' meeting resolved to donate NT\$220,844 thousand to the Ministry of Labor under the name of the Bank as a fund for Hua-Long Co.'s employees' pension or severance pay. The creditor's right has been recovered on May 15, 2015.

(36) Income tax

A. Income tax expense

(A) Components of income tax expenses:

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Current income tax:			
Income tax from current income	\$ 4,326,965	\$ 134,353	\$ 4,367,361
Tax on undistributed surplus earnings	403,060	12,515	707,469
Prior year income tax under (over) estimate	12,444	386	( 56,517)
Total current tax	4,742,469	147,254	5,018,313
Deferred income tax:			
Origination and reversal of temporary differences	( 637,062)	( 19,781)	( 406,549)
Income tax expense	\$ 4,105,407	\$ 127,473	\$ 4,611,764

(B) The income tax relating to components of other comprehensive income is as follows:

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Remeasurement on defined benefit plan	\$ 90,837	\$ 2,820	\$ 237,786

B. Reconciliation between accounting income and income tax expense:

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Income tax calculated based on pre-tax income using statutory tax rate enacted in the country where the branch operates	\$ 4,740,081	\$ 147,180	\$ 5,710,234
Effects of items not recognised under relevant regulations	6,652	207	4,268
Additional 10% tax payment levied on undistributed earnings	403,060	12,515	707,469
Effect of income basic tax	957,082	29,717	491,773
Income tax adjustments in respect of prior years	12,444	386	( 56,517 )
Adjusted effects on income tax exemption and other adjustments	( 2,013,912 )	( 62,532 )	( 2,245,463 )
Income tax expense	\$ 4,105,407	\$ 127,473	\$ 4,611,764

C. As of December 31, 2011, the income tax return of the Bank and its subsidiaries has been approved by National Taxation Bureau of Taipei. However, the Bank and its subsidiaries disagreed with the results of the 2009 income tax return. As a result, the parent company, Mega Financial Holding Co., Ltd, had appealed for a review.

D. Deferred income tax assets or liabilities arising from the temporary differences are as follows:

	For the year ended December 31, 2016			
	NT\$			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets				
Allowance for doubtful accounts in excess of limit	\$ 1,782,614	\$ 797,827	\$ -	\$ 2,580,441
Reserve of guarantees in excess of limit	199,597	-	-	199,597
Employee benefit liabilities reserve	1,391,165	( 232,969 )	90,837	1,249,033
Unrealized impairment loss	603,109	114,178	-	717,287
Others	376,725	( 34,279 )	-	342,446
	\$ 4,353,210	\$ 644,757	\$ 90,837	\$ 5,088,804
Deferred income tax liabilities				
Land value increment tax	( \$ 1,053,300 )	\$ -	\$ -	( \$ 1,053,300 )
Unrealized exchange gains	( 464,213 )	( 2,705 )	-	( 466,918 )
Investment income accounted for under the equity method	( 562,166 )	( 38,218 )	-	( 600,384 )
Others	( 74,278 )	33,228	-	( 41,050 )
	( \$ 2,153,957 )	( \$ 7,695 )	\$ -	( \$ 2,161,652 )

	For the year ended December 31, 2016			
	US\$			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets				
Allowance for doubtful accounts in excess of limit	\$ 55,350	\$ 24,773	\$ -	\$ 80,123
Reserve of guarantees in excess of limit	6,198	-	-	6,198
Employee benefit liabilities reserve	43,196	( 7,234 )	2,820	38,782
Unrealized impairment loss	18,727	3,545	-	22,272
Others	11,697	( 1,064 )	-	10,633
	\$ 135,168	\$ 20,020	\$ 2,820	\$ 158,008
Deferred income tax liabilities				
Land value increment tax	( \$ 32,705 )	\$ -	\$ -	( \$ 32,705 )
Unrealized exchange gains	( 14,414 )	( 84 )	-	( 14,498 )
Investment income accounted for under the equity method	( 17,455 )	( 1,187 )	-	( 18,642 )
Others	( 2,307 )	1,032	-	( 1,275 )
	( \$ 66,881 )	( \$ 239 )	\$ -	( \$ 67,120 )

	For the year ended December 31, 2015			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Temporary differences:				
Deferred income tax assets				
Allowance for doubtful accounts in excess of limit	\$ 1,520,859	\$ 261,755	\$ -	\$ 1,782,614
Reserve of guarantees in excess of limit	167,008	32,589	-	199,597
Employee benefit liabilities reserve	1,128,981	24,398	237,786	1,391,165
Unrealized impairment loss	583,643	19,466	-	603,109
Others	297,803	78,922	-	376,725
	<u>\$ 3,698,294</u>	<u>\$ 417,130</u>	<u>\$ 237,786</u>	<u>\$ 4,353,210</u>
Deferred income tax liabilities				
Land value increment tax	(\$ 1,053,300)	\$ -	\$ -	(\$ 1,053,300)
Unrealized exchange gains	( 455,667)	( 8,546)	-	( 464,213)
Investment income accounted for under the equity method	( 515,914)	( 46,252)	-	( 562,166)
Others	( 118,495)	44,217	-	( 74,278)
	<u>(\$ 2,143,376)</u>	<u>(\$ 10,581)</u>	<u>\$ -</u>	<u>(\$ 2,153,957)</u>

E. As of December 31, 2016 and 2015, the balance of the imputation tax credit account was NT\$117,430 thousand and NT\$83,225 thousand, respectively. The creditable tax rate was 0.77% for 2015 and is estimated to be 0.34% for 2016.

### (37) Earnings per share

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the parent by the weighted-average number of ordinary shares in issue during the period.

	For the years ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Weighted-average number of shares outstanding common stock (Unit: Thousand)	8,536,234		7,870,609
Profit attributable to ordinary shareholders of the Bank and its subsidiaries	\$ 19,009,961	\$ 590,262	\$ 25,708,445
Basic earnings per share (in dollars)	\$ 2.23	\$ 0.07	\$ 3.27

## 7. FAIR VALUE INFORMATION OF FINANCIAL INSTRUMENTS

### (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 recorded at fair value upon their initial recognition, where often fair value refers to the transaction price; for subsequent measurements, other than a portion of financial instruments being measured at amortized cost, fair value is elected for measurements. The best evidence for fair value is a public quote in an active market. If the market of a financial instrument is not active, the Bank elects valuation techniques or references Bloomberg or the quotes of counterparties to measure the fair value of the financial instrument. In addition, through the valuation process, information on the counterparty's and the Bank's credit risk is also considered.

### (2) Fair value information of financial instruments

Except for those listed in the table below, the carrying amounts of certain financial instruments held by the Bank and its subsidiaries (such as cash and cash equivalents, due from the Central Bank and call loans to banks, bills and bonds purchased under resale agreement, receivables, bills discounted and loans, held-to-maturity financial assets-Central Bank's certificates of deposits, due to the Central Bank and other banks, funds borrowed from the Central Bank and other banks, bills and bonds sold under repurchase agreements, accounts payable, deposits and remittances, financial bonds payable, and other financial liabilities) are approximate to their fair values (please refer to Note 7(5)). The fair value information of financial instruments measured at fair value is provided in Note 7(6).

	NT\$	
	Book Value	Fair Value
December 31, 2016		
Held-to-maturity financial assets - investments in bonds	\$ 20,229,023	\$ 20,215,485
	US\$	
	Book Value	Fair Value
December 31, 2016		
Held-to-maturity financial assets - investments in bonds	\$ 628,113	\$ 627,693
	NT\$	
	Book Value	Fair Value
December 31, 2015		
Held-to-maturity financial assets - investments in bonds	\$ 28,158,540	\$ 28,111,006

The fair values of the above-mentioned held-to-maturity financial assets are classified as Level 1 and Level 2.

(3) Financial instruments measured at fair value

If the market quotation from the Taiwan Stock Exchange Corporation, brokers, underwriters, Industrial Trade Unions, pricing service agencies or competent authorities can be frequently obtained on time, and the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. If the above condition cannot be met, the market is deemed inactive. In general, significant price variance between the purchase price and selling price, significantly increasing price variance or extremely low trading volume are all indicators of an inactive market.

If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value, usually the fair value is measured using the market price, interest rate, foreign exchange central parity rate shown in Reuters quotation system, partially using the quoted prices from Bloomberg, OTC, and the basis for valuation is maintained consistently. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value. Fair value measured by a valuation technique is usually estimated by reference to the fair values of other financial instruments with similar terms and characteristics, or by using cash flows discounting method, or using model calculation based on the market information (such as yield rate curves from OTC, average interest rate of TAIBOR from Reuters) available on the balance sheet date.

When assessing non-standardized financial instruments with lower complexity, derivative financial instruments such as interest rate swap contracts, foreign exchange swap contracts, options, the Bank and its subsidiaries use valuation techniques and models which are extensively used by the market to estimate their fair value. The parameters used in the valuation model for these kinds of financial instruments usually use the observable information as the input.

For more complicated financial instruments, such as debt instruments with embedded derivative instruments or securitization products, the Bank and its subsidiaries develop its own valuation models to estimate fair value by reference to the valuation techniques and methods which are extensively used by the same trade. Parts of parameters used in these valuation models are not observable from the market; they must be estimated by using some assumptions.

- A. NTD Central Government Bond: the yield rates across different contract length and one-hundred price bulletined by Over-The-Counter (hereinafter OTC) are used.
- B. NTD corporate bonds, financial debentures, government bonds, bond-type beneficiary securities and designated financial debentures issued by the Bank and its subsidiaries: the present value of future estimated cash flows is calculated by using the yield rate curve.
- C. NTD short-term bills and NTD bill-type beneficiary securities: the present value of future estimated cash flows of NTD and USD short-term bills is calculated by using average interest rate of TAIBOR and TAIFX3 central parity rate from Reuters, respectively.
- D. Foreign securities: quoted prices from Bloomberg are adopted.
- E. Listed stock: the closing price being listed in TSE is adopted.
- F. Emerging stock: If the objective recently has representative trading, its trading price might be the best estimate of its fair value. If the objective has comparable listed trades, its fair value can be estimated by using appropriate market method, such as P/E method, P/B method, EV/EBIT method or EBITDA×EV method, taking into account the operation condition of the comparable listed companies, most recent one month trading information and its liquidity. And if the objective has no comparable instruments or its fair value cannot be estimated using market method, other valuation technique, such as net assets method or income approach, is used to estimate its fair value.
- G. Funds: net assets value is adopted.
- H. Derivative financial instruments:
  - (A) Foreign exchange forward contract, currency swaps, forward rate agreement, interest rate swaps and cross currency swaps: the discounting future cash flow is adopted.
  - (B) Options: Black-Scholes model is mainly adopted for valuation.
  - (C) Some structured derivative financial instruments are valued by using Bloomberg.
  - (D) Some foreign-currency derivatives are valued by using the quoted prices from Bloomberg.

(4) Credit risk value adjustment

- A. Credit risk value adjustments can be primarily classified as either credit value adjustments or debit value adjustments. The definitions are as follows:
  - (A) Credit value adjustments refer to adjustments through fair value, which reflect the possibility that a counterparty may default on repayments and that an entity may not be able to recover, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).
  - (B) Debit value adjustments refer to adjustments through fair value, which reflect the possibility that the Bank may default on repayments and that the Bank may not be able to pay, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).
- B. The Bank and its subsidiaries has incorporated credit risk value adjustments in the considerations for calculating the fair value of financial instruments in order to respectively reflect the counterparty's credit risk and the Bank's and its subsidiaries' credit quality.

(5) Financial instruments not measured at fair value through profit or loss

- A. In relation to cash and cash equivalents, bills and bonds purchased under resale agreements, due from the Central Bank and call loans to banks, receivables, refundable deposits, due to the Central Bank and commercial banks, funds borrowed from the Central Bank and other banks, bills and bonds sold under repurchase agreements, payables and deposits received, the book value of the financial instruments which have a short maturity period will be considered as their fair value. While the maturities are quite closed or the future payment or receipt is closed to the carrying amount, the carrying amount at the consolidated balance sheet date is used to estimate the fair value.

- B. Interest rates of the Bank and its subsidiaries' bills discounted and loans (including non-performing loans) are generally based on the benchmark interest rate plus or minus certain adjustment to reflect the market interest rate. Thus, their fair values are based on the book value after adjustments of estimated recoverability. Fair values for long-term loans with fixed interest rates shall be estimated using their discounted values of expected future cash flows. However, as such loans account for only a small portion of all loans, book value was used to estimate the fair value.
- C. When held-to-maturity financial assets have a quoted market price available in an active market, the fair value is determined using the market price. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value.
- D. The fair value of deposits and remittances are represented by the book value.
- E. The coupon rate of convertible bonds and bank debentures issued by the Bank and its subsidiaries is equivalent to market interest rate; therefore, fair value estimated based on the present value of future cash flows is equivalent to book value.
- F. For other financial assets, such as investments in debt instruments without active market and financial assets measured at cost, as they have no quoted price in active market and their valuation results by using different valuation methods are significantly different, their fair value cannot be measured reliably and is not disclosed here.
- (6) Level information of financial instrument at fair value
- A. Three definitions of the Bank and its subsidiaries' financial instruments at fair value

(A) Level 1

Level 1 is quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market refers to a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Bank and its subsidiaries' investment in listed stock, beneficiary certificates, popular Taiwan government bonds and the derivatives with a quoted price in an active market are deemed as Level 1.

(B) Level 2

Level 2 inputs are observable prices other than quoted prices included in Level 1, including observable direct (e.g. prices) or indirect (e.g. those inferred from prices) inputs in an active market. The Bank and its subsidiaries' investments in non-popular government bonds, corporate bonds, bank debentures, convertible bonds, derivative instruments and corporate bonds issued by the Bank and its subsidiaries belong to this category.

(C) Level 3

Level 3 inputs are inputs for assets or liabilities that are unobservable in the market (unobservable inputs, e.g. option pricing model using history volatility rate, because history volatility rate cannot represent the expectation value of market participants for future volatility rate).

B. Information of fair value hierarchy of financial instruments

(In NT Thousand Dollars)

Recurring fair value measurements	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial assets and liabilities</u>				
Assets				
Financial assets at fair value through profit or loss				
Investment in stock	\$ 2,866,854	\$ 2,866,854	\$ -	\$ -
Investment in bonds	38,666,675	805,495	37,861,180	-
Available-for-sale financial assets				
Investment in stock	7,028,972	6,299,048	729,924	-
Investment in bonds	169,351,914	23,708,634	145,643,280	-
Commercial paper and certificate of deposit	29,279,878	-	29,279,878	-
Other	60,173	-	60,173	-
Liabilities				
Financial liabilities at fair value through profit or loss	( 8,176,700 )	-	( 8,176,700 )	-
<u>Derivative financial assets and liabilities</u>				
Assets				
Financial assets at fair value through profit or loss	3,783,124	-	3,783,124	-
Liabilities				
Financial liabilities at fair value through profit or loss	( 3,217,540 )	-	( 3,217,540 )	-
Total	\$ 239,643,350	\$ 33,680,031	\$ 205,963,319	\$ -

(In US Thousand Dollars)

Recurring fair value measurements	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<b>Non-derivative financial assets and liabilities</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Investment in stock	\$ 89,016	\$ 89,016	\$ -	\$ -
Investment in bonds	1,200,605	25,011	1,175,594	-
<b>Available-for-sale financial assets</b>				
Investment in stock	218,250	195,586	22,664	-
Investment in bonds	5,258,397	736,156	4,522,241	-
Commercial paper and certificate of deposit	909,144	-	909,144	-
Other	1,868	-	1,868	-
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	( 253,887 )	-	( 253,887 )	-
<b>Derivative financial assets and liabilities</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	117,466	-	117,466	-
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	( 99,905 )	-	( 99,905 )	-
<b>Total</b>	<b>\$ 239,643,350</b>	<b>\$ 1,045,769</b>	<b>\$ 6,395,185</b>	<b>\$ -</b>

(In NT Thousand Dollars)

Recurring fair value measurements	December 31, 2015			
	Total	Level 1	Level 2	Level 3
<b>Non-derivative financial assets and liabilities</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss				
Investment in stock	\$ 2,791,248	\$ 2,791,248	\$ -	\$ -
Investment in bonds	39,379,542	2,170,654	37,208,888	-
<b>Available-for-sale financial assets</b>				
Investment in stock	8,109,063	6,342,833	1,766,230	-
Investment in bonds	134,751,677	28,391,032	106,360,645	-
Commercial paper and certificate of deposit	88,518,247	-	88,518,247	-
Other	128,107	18,082	110,025	-
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	( 17,181,429 )	-	( 17,181,429 )	-
<b>Derivative financial assets and liabilities</b>				
<b>Assets</b>				
Financial assets at fair value through profit or loss	4,857,594	-	4,857,594	-
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	( 4,757,866 )	-	( 4,757,866 )	-
<b>Total</b>	<b>\$ 256,596,183</b>	<b>\$ 39,713,849</b>	<b>\$ 216,882,334</b>	<b>\$ -</b>

C. Movements of financial instruments classified into Level 3 of fair value are as follows:

(A) Movements of financial assets classified into Level 3 of fair value are as follows:

For the year ended December 31, 2016: No relevant balance.

For the year ended December 31, 2015:

(In NT Thousand Dollars)

Items	Beginning balance	Gain and loss on valuation		Addition		Reduction		Ending balance
		Gain and loss	Other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through profit or loss	\$ 214,281	\$ 106,135	\$ -	\$ 14,514	\$ -	(\$ 472)	(\$ 334,458)	\$ -

(B) Movements of financial liabilities classified into Level 3 of fair value are as follows:

For the year ended December 31, 2016: No relevant balance.

For the year ended December 31, 2015:

(In NT Thousand Dollars)

Items	Beginning balance	Gain and loss on valuation		Addition		Reduction		Ending balance
		Gain and loss	Other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial liabilities at fair value through profit or loss	(\$ 214,281)	(\$ 106,135)	\$ -	(\$ 14,514)	\$ -	\$ 472	\$ 334,458	\$ -

Due to the adoption of observable inputs rather than quoted price from counterparties, derivative financial instruments were transferred from level 3 to level 2.

#### D. Transfer between Level 1 and Level 2

The Bank's held 104-12 and 104-13 Category A Central Government Construction Bonds at December 31, 2016 had an amount of NT\$797,688 thousand and NT\$608,634 thousand, respectively. For the current period they were not on the-run bonds, thus they were transferred from Level 1 to Level 2.

The Bank's held 103-13 and 103-15 Category A Central Government Construction Bonds at December 31, 2015 had an amount of NT\$105,180 thousand and NT\$153,912 thousand, respectively. For the current period they were not on the-run bonds, thus they were transferred from Level 1 to Level 2.

#### E. Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value.

The Bank and its subsidiaries did not hold any Level 3 financial instruments at December 31, 2016 and 2015.

### 8. MANAGEMENT OBJECTIVE AND POLICY FOR FINANCIAL RISK

#### (1) Overview

The Bank and its subsidiaries earn profits mainly from lending, financial instruments trading and investments. The Bank and its subsidiaries are supposed to bear and manage any risks from these business activities. These risks include credit risk, market risk, operating risk and liquidity risk. Among those risks, credit risk, market risk and liquidity risk have greatest impact.

The Bank and its subsidiaries regard any potential factors that might negatively affect earnings and reputation as risks. To maintain steady profits and good reputation and avoid losses from incidental events, the Bank and its subsidiaries' risk management policies focus on prevention and reduction of anticipated business risks and increase of capital in response to future anticipated risks. In order to meet the solid operating requirements by the competent authorities, depositors and other stakeholders for management objectives for risks, business risks are controlled within the tolerable scope.

#### (2) The organization framework of risk management

The Bank and its subsidiaries established risk management policies and guidelines and whole risk tolerance of the group. Subsidiaries therefore follow the Bank's instructions in setting risk management organization, policies, objectives, procedures, internal control operation, risk monitor mechanism and risk limits, and report to the parent company on risk management issues.

The Board of Directors is the highest instruction unit of the Bank and its subsidiaries' risk management organization structure and is responsible for establishing risk management system, including risk management policies, organization structure, risk preference, internal control system and management of significant business cases.

Under the head office, the Risk Management Committee is established. The Risk Management Committee is responsible for review and monitor of risk management. Under the management, several committees and other administrative units are established. They are responsible for assessing and monitoring the related risk of loans, investments, trading of financial products.

The Bank has the Risk Management Committee established beneath its management, which is responsible for supervising the establishment of risk management mechanism, risk limits setting, risk monitoring and reporting. Each business management unit is responsible for identifying possible risks that may be generated within their respective jurisdictions, establishing internal control procedures and regulations, periodically measuring risk degrees and adopting response measures for possible negative effects.

Business units follow operating procedures and report to the management units directly. Risk management unit is responsible for monitor of overall risk positions and concentration and reporting to the management or Board of Directors.

Auditing office examines the operations of business and administration units regularly or irregularly to ensure the three risk management defense lines operate normally.

The Bank has assigned personnel to sit on the Board of Directors of each subsidiary to monitor the governance of each subsidiary.

#### (3) Credit risk

##### A. The source and definition of credit risk

Credit risk pertains to the risk of loss that the borrowers, issuers or counterparties might default on contracts due to deterioration in their finance or other factors.

The Bank and its subsidiaries are exposed to credit risk mainly on businesses of corporate and individual loans, guarantees, trade financing, interbank deposits and call loans and securities investments.

Credit risk is the primary risk of the Bank and its subsidiaries' capital charge.

##### B. Credit risk management policies

The objectives of the Bank and its subsidiaries' credit risk management are to maintain stable asset allocation strategy, careful loaning policy and excellent asset quality to secure assets and earnings.

The management mechanism of the Bank and its subsidiaries for credit risk includes:

The establishment of Risk Management, Loan and Investment committees which adopt responding measures to market environment, changes in industry, and capital limits, and review relevant regulations and cases of significant lending and investments.

Setting careful prior review procedures for lending and criteria of handling subsequent matters, regular post-lending follow-up, understanding of clients' operation and capital outflows, and increase in the frequency of review on clients with higher risk.

Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.



Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

The establishment of credit pre-warning list and reporting system.

Assessing assets quality regularly and setting aside sufficient reserve for losses.

Setting creditor's rights management unit and advisory committee in charge of accelerating collection of non-performing loans.

The procedures for credit risk management of the Bank and its subsidiaries and related measurement approaches are outlined below:

(A) Credit extensions

Classification of credit assets and internal risk ratings are as follows:

a. Classification of credit assets

Corporate credit risk is measured by using the borrower's default probability model with logistic regression analysis in which financial and non-financial factors are incorporated, which predicts the default probability of borrower within the next year. Besides, the extent of risk is measured by using credit rating table and taking into account the characteristics and scale of business. Lending examination and post management are dealt with based on clients' credit rating. Individual borrowers are grouped into different risk levels and managed by using application scoring and behavior scoring cards. Back-testing is conducted on internal models regularly; those models are subject to adjustments when necessary. Clients' credit ratings are reviewed annually and subject to adjustments when there is significant change in their credit ratings.

b. Internal risk rating

The internal rating for lending is classified as excellent, satisfactory, fair and weak, and corresponds to the Standard & Poor's rating as follows:

Internal risk rating	Excellent	Satisfactory	Fair	Weak
Corresponding to S&P	AAA~BBB-	BB+~ BB-	B+	B and below

(B) Interbank deposits and call loans

Before trading with other banks, the Bank and its subsidiaries must assess the credit of the counterparty; generally referencing external rating agencies, assets and scale of equity of the counterparty, and the credit rating of the counterparty's country of origin in order to set different transaction limits, as well as periodically examining the ratings and changes in stock prices of the counterparty in order to monitor the risks of counterparty.

(C) Bonds and derivative instruments

The limits of bonds purchased by the Bank and its subsidiaries are set by considering the credit rating of bond issuers or guarantors (ex. S&P, Moody's, Fitch, Taiwan ratings or Fitch Taiwan), which needs to meet the minimum rating set by the Board of (Managing) Directors, and country risk at the application, changes in CDS quoted prices and market condition.

The Bank and its subsidiaries have set trading units and overall total risk limit for non-hedging derivative instruments, and use positive trading contract evaluation and the potential exposure as the basis for calculating credit risk and add the limit to the total credit risk limit for monitoring.

(D) Asset quality

The Bank and its subsidiaries have set the minimum requirements and examination procedures for the quality of financial assets of each type, and controls risk concentration of assets portfolios of each type based on the risk limit of each type. The Bank and its subsidiaries also monitor the changes in assets quality regularly during the duration of the assets and takes measures to maintain their quality. According to the policies and regulations, reserve for losses is provided adequately for those assets to actually reflect and safeguard the value of owners' equity.

(E) Impairment of financial assets and provision for reserves

The Bank and its subsidiaries assess at each balance sheet date whether a financial asset is impaired. If there is objective evidence that an event that occurred after the initial recognition of the asset has an impact on the future cash flows of the financial asset, the impairment loss on the financial asset should be recognized.

The objective evidence of an impairment loss is as follows:

Significant financial difficulty of the issuer or debtor;

The issuer or debtor has breached the contract;

The Creditor, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession;

It becomes probable that the borrower will enter bankruptcy or other financial reorganization;

The disappearance of an active market for that financial asset because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including:

Adverse changes are in the payment status of borrowers in the group; or adverse changes in national or local economic conditions that correlate with defaults on the assets in the group.

Financial assets that are not impaired are included in the group of financial assets sharing similar credit risk characteristics for collective assessment. Financial assets that are assessed individually with impairment recognized need not be included in the collective assessment.

The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using the original effective interest rate. The present value of estimated future cash flows must reflect the cash flows that might generate from collaterals less acquisition or selling cost regarding the collateral.

Financial assets through collective assessment are grouped based on similar credit risk characteristics, such as types of assets, industry and collaterals. Such credit risk characteristics represent the ability of the debtors to pay all the amounts at maturities according to the contract term, which is related to future cash flows of group of financial assets. The future cash flows of group of financial assets for collective assessment are estimated based on historical impairment experience, reflecting the change in observable data for each period, and the estimation of the future cash flows should move in the same direction. The Bank and its subsidiaries review the assumptions and methods for estimation of the future cash flows regularly.

For loan loss provision and guarantee reserve, the Bank and its subsidiaries have established the regulations for assets assessment and loss reserve. According to the regulations of the Financial Supervisory Commission for banks, bills companies and insurance companies, all assets in balance sheets and off balance sheets are classified as five categories. For credit assets on balance sheets and off balance sheets, in addition to normal credit assets which shall be classified as "Category One", the remaining unsound credit assets that required special attention shall be evaluated based on the status of the creditor's the length of time overdue financial situation, and loan collaterals, and classified as "Category Two". Assets that are substandard shall be classified as "Category Three". Assets that are doubtful shall be classified as "Category Four", and assets for which there is loss shall be classified as "Category Five". "Category Two" to "Category Five" shall be assessed one by one for possible loss and set aside sufficient loss provision. And loss provision shall be also set aside for "Category One" proportionately in accordance with regulations of competent authorities.

C. Policies of hedging and mitigation of credit risk

To reduce credit risk, the Bank and its subsidiaries adopt the following policies:

(A) Obtaining collaterals and guarantors

The Bank and its subsidiaries have established policies on collateral management, mortgage loan line setting, scope of collaterals, collateral valuation, collateral management and disposal. Besides, protection of creditor's right, collateral terms and offsetting terms are all addressed in the credit extension contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, or the debtor's deposits can be used to offset its liabilities to mitigate credit risks.

(B) Loan limit control

To avoid extreme credit risk concentration, subsidiaries established policies for control of credit risk concentration and set up credit extension limit for a single individual, a single group, a single industry, a single area/country, and single collateral.

(C) Master netting arrangements

The Bank's and its subsidiaries' transactions predominantly settle at gross amount. A portion of transactions have entered into master netting arrangements with counterparties or upon the event of a default may cease all transactions with the counterparties and settle by net amount in order to further reduce credit risk.

(D) Other credit enhancements

The Bank and its subsidiaries have offsetting terms within their credit contracts, which clearly define that all deposits in the Bank and its subsidiaries from debtors may be offset against their liabilities upon a credit event, and have guarantees from third parties or financial institutions, in order to decrease credit risk.

D. Maximum credit risk exposure

The maximum credit risk exposure of financial assets within the balance sheets is presented in book values. The maximum credit risk exposure of guarantees and irrevocable commitments off balance sheets is calculated based on their limits. Letters of credit and the guarantee refer to those issued but not used.

(A) The maximum credit risk exposure of financial assets of the Bank and its subsidiaries excluding collaterals or other credit enhancement instruments is approximately equal to book value. The maximum exposure to credit risk of items off balance sheet is listed below:

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
<b>Credit risk exposure of items off balance sheet:</b>			
Irrevocable commitments	\$ 171,787,313	\$ 5,334,016	\$ 166,108,998
Guarantee and letters of credit	257,027,894	7,980,745	272,848,162
Total	<u>\$ 428,815,207</u>	<u>\$ 13,314,761</u>	<u>\$ 438,957,160</u>

(B) Assets of the Bank and its subsidiaries with credit risk are analyzed as follows:

Unit: In NT Thousand Dollars

	December 31, 2016							
	Cash and cash equivalents, due from the Central Bank and call loans to banks	Bills discounted and loans	Receivables	Bills and bonds purchased under resale agreement and debt instruments	Derivative financial instruments	Other items included in balance sheet	Credit commitments	Total
Government organization	\$ 360,860,952	\$ 8,467,889	\$ 374,127	\$ 34,678,520	\$ -	\$ 17,378	\$ 84,705,196	\$ 489,104,062
Financial institution, investment and insurance	269,579,542	161,889,924	7,001,905	420,550,150	2,270,646	58	15,874,010	877,166,235
Enterprise and commerce	-	1,166,873,194	48,085,489	65,393,120	867,531	952,480	269,879,135	1,552,050,949
Individuals	-	394,633,931	4,767,526	-	45,515	312,976	56,710,159	456,470,107
Others	-	10,108,060	624,882	283,986	599,432	65,479	1,646,707	13,328,546
Total	630,440,494	1,741,972,998	60,853,929	520,905,776	3,783,124	1,348,371	428,815,207	3,388,119,899
Less: Allowance for probable losses	( 2,206 )	( 26,694,232 )	( 1,428,738 )	-	-	( 3,034 )	-	( 28,128,210 )
Net	\$ 630,438,288	\$ 1,715,278,766	\$ 59,425,191	\$ 520,905,776	\$ 3,783,124	\$ 1,345,337	\$ 428,815,207	\$ 3,359,991,689

Trade finance to enterprises accounted for 8.08%, totaling NT\$94,290,515 thousand. Housing mortgage loans to individuals accounted for 76.34%, totaling NT\$301,249,912 thousand.

Unit: In US Thousand Dollars

	December 31, 2016							
	Cash and cash equivalents, due from the Central Bank and call loans to banks	Bills discounted and loans	Receivables	Bills and bonds purchased under resale agreement and debt instruments	Derivative financial instruments	Other items included in balance sheet	Credit commitments	Total
Government organization	\$ 11,204,774	\$ 262,929	\$ 11,617	\$ 1,076,772	\$ -	\$ 539	\$ 2,630,106	\$ 15,186,737
Financial institution, investment and insurance	8,370,476	5,026,701	217,410	13,058,131	70,504	2	492,890	27,236,114
Enterprise and commerce	-	36,231,547	1,493,060	2,030,464	26,937	29,575	8,379,778	48,191,361
Individuals	-	12,253,429	148,032	-	1,413	9,718	1,760,857	14,173,449
Others	-	313,856	19,402	8,818	18,612	2,033	51,130	413,851
Total	19,575,250	54,088,462	1,889,521	16,174,185	117,466	41,867	13,314,761	105,201,512
Less: Allowance for probable losses	( 68 )	( 828,859 )	( 44,362 )	-	-	( 94 )	-	( 873,383 )
Net	\$ 19,575,182	\$ 53,259,603	\$ 1,845,159	\$ 16,174,185	\$ 117,466	\$ 41,773	\$ 13,314,761	\$ 104,328,129

Trade finance to enterprises accounted for 8.08%, totaling US\$2,927,731 thousand. Housing mortgage loans to individuals accounted for 76.34%, totaling US\$9,353,844 thousand.

Unit: In NT Thousand Dollars

	December 31, 2015							
	Cash and cash equivalents, due from the Central Bank and call loans to banks	Bills discounted and loans	Receivables	Bills and bonds purchased under resale agreement and debt instruments	Derivative financial instruments	Other items included in balance sheet	Credit commitments	Total
Government organization	\$ 338,242,916	\$ 10,709,913	\$ 150,430	\$ 18,100,977	\$ -	\$ 10,019	\$ 81,658,932	\$ 448,873,187
Financial institution, investment and insurance	312,819,051	173,014,187	82,460,399	391,638,844	2,480,950	93	19,663,315	982,076,839
Enterprise and commerce	-	1,211,258,965	56,431,606	61,780,324	1,645,168	880,164	277,025,545	1,609,021,772
Individuals	-	391,311,819	4,728,797	-	50,795	314,738	58,965,383	455,371,532
Others	-	10,440,399	723,668	203,755	680,681	34,825	1,643,985	13,727,313
Total	651,061,967	1,796,735,283	144,494,900	471,723,900	4,857,594	1,239,839	438,957,160	3,509,070,643
Less: Allowance for probable losses	( 2,241 )	( 23,466,229 )	( 1,973,545 )	-	-	( 2,992 )	-	( 25,445,007 )
Net	\$ 651,059,726	\$ 1,773,269,054	\$ 142,521,355	\$ 471,723,900	\$ 4,857,594	\$ 1,236,847	\$ 438,957,160	\$ 3,483,625,636

Trade finance to enterprises accounted for 9.62%, totaling NT\$116,501,780 thousand. Housing mortgage loans to individuals accounted for 75.83%, totaling NT\$296,737,772 thousand.

(C) Relevant financial information on effect of the Bank's and its subsidiaries' assets exposed to credit risk, net settlement master netting arrangements and other credit improvements is as follows:

Unit: In NT Thousand Dollars

December 31, 2016	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
<b><u>On-Balance-Sheet Items</u></b>				
Financial assets at fair value through profit or loss				
- debt instrument	\$ -	\$ -	\$ 12,237,232	12,237,232
- derivative instrument	908,272	1,140,092	-	2,048,364
Bills and bonds purchased under resale agreements	4,091,532	-	-	4,091,532
Bills discounted and loans	1,107,932,816	-	54,229,707	1,162,162,523
Available-for-sale financial assets - debt instrument	-	-	16,630,445	16,630,445
Held-to-maturity financial assets - debt instrument	-	-	3,652,812	3,652,812
<b><u>Off-Balance-Sheet Items</u></b>				
Irrevocable commitments	82,161,825	-	1,206,122	83,367,947
Guarantees and letters of credit	50,000,626	-	1,852,236	51,852,862

Unit: In US Thousand Dollars

December 31, 2016	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
<b><u>On-Balance-Sheet Items</u></b>				
Financial assets at fair value through profit or loss				
- debt instrument	\$ -	\$ -	\$ 379,967	379,967
- derivative instrument	28,202	35,400	-	63,602
Bills and bonds purchased under resale agreements	127,043	-	-	127,043
Bills discounted and loans	34,401,441	-	1,683,839	36,085,280
Available-for-sale financial assets - debt instrument	-	-	516,377	516,377
Held-to-maturity financial assets - debt instrument	-	-	113,420	113,420
<b><u>Off-Balance-Sheet Items</u></b>				
Irrevocable commitments	2,551,134	-	37,450	2,588,584
Guarantees and letters of credit	1,552,525	-	57,512	1,610,037

Unit: In NT Thousand Dollars

December 31, 2015	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
<b><u>On-Balance-Sheet Items</u></b>				
Financial assets at fair value through profit or loss				
- debt instrument	\$ -	\$ -	\$ 11,166,111	\$ 11,166,111
- derivative instrument	1,441,782	616,636	-	2,058,418
Bills and bonds purchased under resale agreements	9,210,246	-	-	9,210,246
Bills discounted and loans	1,108,013,324	-	51,337,539	1,159,350,863
Available-for-sale financial assets - debt instrument	-	-	55,850,290	55,850,290
Held-to-maturity financial assets - debt instrument	-	-	3,370,705	3,370,705
<b><u>Off-Balance-Sheet Items</u></b>				
Irrevocable commitments	77,350,509	-	328,366	77,678,875
Guarantees and letters of credit	49,783,690	-	2,430,842	52,214,532

Note 1: Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, letter of credit and rights in property.

(1) Value of collaterals pledged for assets that arise from lending is the lower of collateral value/ market value and maximum exposure amount. If the collateral value cannot be obtained, value of collaterals must be assessed.

(2) Value of collaterals pledged for assets that do not arise from lending is the lower of market value and maximum exposure amount.

Note 2: Details of improvement to net settlement master netting arrangements and other credits are provided in Note 8(3) C. (C) and C. (D).

#### E. Credit risk concentration

Extreme credit risk concentration will enhance risk degree, such as large amount of risk exposure concentrated on one credit product, one client, or minor clients, or a group of clients in the same industry or with similar business or in the same area or with the same risk characteristics. When adverse economic changes occur, a financial institution may incur a significant loss.

To avoid extreme credit risk concentration, the Bank and its subsidiaries have regulated credit limit and management rules for single client, single business group and large amount of risk exposure. The Bank and its subsidiaries have to monitor and control the credit risk concentration within the limit. Status of credit risk concentration must be shown in the regular risk report by industry, area/country, collateral and other forms.

(A) Loans and credit commitments of the Bank and its subsidiaries are shown below by industry:

		Loans and credit commitments					
		December 31, 2016			December 31, 2015		
		Amount		Percentage (%)	Amount		Percentage (%)
		NT\$	US\$		NT\$		
Individuals	Individuals	\$ 451,344,091	\$ 14,014,286	20.79%	\$ 450,277,202	20.14%	
Corporation	Government organization	93,173,084	2,893,035	4.29%	92,368,844	4.13%	
	Financial institution, investment and insurance	177,763,933	5,519,590	8.19%	192,677,503	8.62%	
	Enterprise and commerce						
	- Manufacturing	525,117,015	16,304,944	24.19%	550,645,218	24.63%	
	- Electricity and gas supply	98,779,752	3,067,123	4.55%	109,820,565	4.91%	
	- Wholesale and retail	162,134,935	5,034,308	7.47%	176,114,363	7.88%	
	- Transportation and storage	170,853,727	5,305,028	7.87%	177,794,548	7.95%	
	- Real estate	286,623,859	8,899,704	13.21%	280,618,514	12.55%	
	- Others	193,243,041	6,000,218	8.90%	193,291,302	8.65%	
	Others	11,754,768	364,987	0.54%	12,084,384	0.54%	
Total		\$ 2,170,788,205	\$ 67,403,223	100.00%	\$ 2,235,692,443	100.00%	

(B) Loans and credit commitments of the Bank and its subsidiaries are shown below by location:

	Loans and credit commitments					
	December 31, 2016			December 31, 2015		
	Amount		Percentage (%)	Amount		Percentage (%)
	NT\$	US\$		NT\$		
ROC	\$ 1,653,439,909	\$ 51,339,499	76.17%	\$ 1,686,167,196	75.42%	
Asia	296,208,761	9,197,316	13.65%	329,921,179	14.76%	
North America	105,347,987	3,271,067	4.85%	113,011,992	5.05%	
Others	115,791,548	3,595,341	5.33%	106,592,076	4.77%	
Total	\$ 2,170,788,205	\$ 67,403,223	100.00%	\$ 2,235,692,443	100.00%	

(C) Loans and credit commitments of the Bank and its subsidiaries are shown below by collaterals:

	Loans and credit commitments					
	December 31, 2016			December 31, 2015		
	Amount		Percentage (%)	Amount		Percentage (%)
	NT\$	US\$		NT\$		
Unsecured	\$ 873,404,872	\$ 27,119,321	40.33%	\$ 946,448,173	42.33%	
Secured						
- Secured by stocks	133,034,971	4,130,751	6.13%	135,224,849	6.05%	
- Secured by bonds	50,562,799	1,569,981	2.33%	124,992,654	5.59%	
- Secured by real estate	818,537,443	25,415,682	37.71%	786,175,539	35.16%	
- Secured by chattel	109,674,057	3,405,392	5.05%	108,735,241	4.86%	
- Secured by letter of guarantee	57,288,066	1,778,801	2.64%	54,096,746	2.42%	
- Others	128,285,997	3,983,295	5.91%	80,019,241	3.59%	
Total	\$ 2,170,788,205	\$ 67,403,223	100.00%	\$ 2,235,692,443	100.00%	

( Blank below )

F. Financial assets credit quality and analysis of past due and impairment

(A) The Bank and its subsidiaries' financial assets credit quality and analysis of past due and impairment

Unit: In NT Thousand Dollars

December 31, 2016	Neither past due nor impaired					Past due but not impaired					Impaired	Reserve for losses	Net amount		
	Excellent	Satisfactory	Fair	Weak	No rating	Subtotal	Excellent	Satisfactory	Fair	Weak				No rating	Subtotal
<b>Maximum credit risk exposure of financial assets in balance sheet:</b>															
Cash and cash equivalents	\$ 87,838,654	\$ 1,874,076	\$ 12,955	\$ 10,259	\$ 692,808	\$ 90,428,752	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,206	\$ 90,426,546
Due from the Central Bank and call loans to banks	535,423,829	2,169,137	644,120	1,311,797	462,859	540,011,742	-	-	-	-	-	-	-	-	540,011,742
Financial assets at fair value through profit or loss															
- Debt instruments	34,151,375	4,415,420	99,880	-	-	38,666,675	-	-	-	-	-	-	-	-	38,666,675
- Derivative financial instruments	2,124,733	4,250	-	-	1,654,141	3,783,124	-	-	-	-	-	-	-	-	3,783,124
Bills and bonds purchased under resale agreements	4,255,968	-	-	-	-	4,255,968	-	-	-	-	-	-	-	-	4,255,968
Receivables	12,261,511	9,157,438	17,153,080	3,349,734	17,714,301	59,636,064	4,861	330	924	512	21,590	28,217	1,189,648	1,428,738	59,425,191
Bills discounted and loans Available-for-sale financial assets-	754,413,557	347,880,410	213,107,288	110,221,176	301,460,958	1,727,083,389	747,750	150,011	360,168	204,050	48,633	1,510,612	13,378,997	26,694,232	1,715,278,766
Debt instruments	198,432,234	199,558	-	60,173	-	198,691,965	-	-	-	-	-	-	-	-	198,691,965
Held-to-maturity financial assets-	279,246,571	25,667	-	-	18,930	279,291,168	-	-	-	-	-	-	-	-	279,291,168
Debt instruments	84,130	795,526	-	-	463,107	1,342,763	-	-	-	-	-	-	5,608	3,034	1,345,337
Other assets															
<b>Total</b>	\$ 1,908,232,562	\$ 366,521,482	\$ 231,017,323	\$ 114,953,139	\$ 322,467,104	\$ 2,943,191,610	\$ 752,611	\$ 150,341	\$ 361,092	\$ 204,562	\$ 70,223	\$ 1,538,829	\$ 14,574,253	\$ 28,128,210	\$ 2,931,176,482

Unit: In US Thousand Dollars

December 31, 2016	Neither past due nor impaired					Past due but not impaired					Impaired	Reserve for losses	Net amount		
	Excellent	Satisfactory	Fair	Weak	No rating	Subtotal	Excellent	Satisfactory	Fair	Weak				No rating	Subtotal
<b>Maximum credit risk exposure of financial assets in balance sheet:</b>															
Cash and cash equivalents	\$ 2,727,400	\$ 58,190	\$ 402	\$ 319	\$ 21,512	\$ 2,807,823	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 68	\$ 2,807,755
Due from the Central Bank and call loans to banks	16,624,972	67,352	20,000	40,731	14,372	16,767,427	-	-	-	-	-	-	-	-	16,767,427
Financial assets at fair value through profit or loss															
- Debt instruments	1,060,404	137,099	3,102	-	51,361	1,200,605	-	-	-	-	-	-	-	-	1,200,605
- Derivative financial instruments	65,973	132	-	-	-	117,466	-	-	-	-	-	-	-	-	117,466
Bills and bonds purchased under resale agreements	132,148	-	-	-	-	132,148	-	-	-	-	-	-	-	-	132,148
Receivables	380,721	284,340	532,605	104,010	550,031	1,851,707	151	10	29	16	670	876	36,938	1,845,159	
Bills discounted and loans Available-for-sale financial assets-	23,424,627	10,801,727	6,617,006	3,422,380	9,360,397	53,626,137	23,218	4,658	11,183	6,336	1,510	46,905	415,420	828,859	53,259,603
Debt instruments	6,161,344	6,196	-	1,869	-	6,169,409	-	-	-	-	-	-	-	-	6,169,409
Held-to-maturity financial assets-	8,670,638	797	-	-	588	8,672,023	-	-	-	-	-	-	-	-	8,672,023
Debt instruments	2,612	24,701	-	-	14,380	41,693	-	-	-	-	-	-	174	94	41,773
Other assets															
<b>Total</b>	\$ 59,250,839	\$ 11,380,534	\$ 7,173,115	\$ 3,569,309	\$ 10,012,641	\$ 91,386,438	\$ 23,369	\$ 4,668	\$ 11,212	\$ 6,352	\$ 2,180	\$ 47,781	\$ 452,532	\$ 873,383	\$ 91,013,368

Unit: In NT Thousand Dollars

December 31, 2015	Neither past due nor impaired					Past due but not impaired					Reserve for losses	Net amount		
	Excellent	Satisfactory	Fair	Weak	No rating	Subtotal	Excellent	Satisfactory	Fair	Weak			No rating	Subtotal
<b>Maximum credit risk exposure of financial assets in balance sheet:</b>														
Cash and cash equivalents	\$ 143,550,943	\$ 527,447	\$ -	\$ 28,339	\$ 922,383	\$ 145,029,112	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,241	\$ 145,026,871
Due from the Central Bank and call loans to banks	498,805,172	2,520,701	1,336,751	1,863,239	1,506,992	506,032,855	-	-	-	-	-	-	-	506,032,855
Financial assets at fair value through profit or loss														
- Debt instruments	36,133,325	2,628,415	553,122	-	64,680	39,379,542	-	-	-	-	-	-	-	39,379,542
- Derivative financial instruments	2,381,617	4,747	-	-	2,471,230	4,857,594	-	-	-	-	-	-	-	4,857,594
Bills and bonds purchased under resale agreements	9,435,869	-	-	-	-	9,435,869	-	-	-	-	-	-	-	9,435,869
Receivables	70,359,334	38,639,817	2,803,379	1,819,410	30,457,184	144,079,124	550	423	897	25,107	31,735	384,041	1,973,545	142,521,355
Bills discounted and loans available-for-sale financial assets-	582,910,908	551,525,514	223,411,631	104,716,863	320,947,499	1,783,512,415	1,176,653	262,713	143,231	385,772	108,733	2,077,102	23,466,229	1,773,269,054
Debt instruments	221,778,013	699,106	-	60,298	842,532	223,379,949	-	-	-	-	-	-	-	223,379,949
Held-to-maturity financial assets-	199,160,317	36,183	-	-	332,040	199,528,540	-	-	-	-	-	-	-	199,528,540
Debt instruments	44,967	682,638	-	-	506,608	1,234,213	-	-	-	-	-	-	2,992	1,236,847
Other assets														
<b>Total</b>	<b>\$ 1,764,560,463</b>	<b>\$ 597,264,568</b>	<b>\$ 228,104,883</b>	<b>\$ 108,488,149</b>	<b>\$ 358,051,148</b>	<b>\$ 3,056,469,213</b>	<b>\$ 1,181,411</b>	<b>\$ 263,263</b>	<b>\$ 143,654</b>	<b>\$ 386,669</b>	<b>\$ 133,840</b>	<b>\$ 2,108,837</b>	<b>\$ 11,535,433</b>	<b>\$ 3,044,668,476</b>

- a. As of December 31, 2016 and 2015, according to the internal requirements of assets internal rating, the rate of liabilities instruments belonging to excellent level were 99.07% and 98.89%, respectively.
- b. As of December 31, 2016 and 2015, the rate of due from commercial banks and call loans to bank belonging to excellent level were 99.15% and 98.57%, respectively.
- c. As of December 31, 2016 and 2015, the rate of loans belonging to excellent level were 43.68% and 32.68%, respectively.
- d. Bills discounted and loans of the Bank and its subsidiaries were all in accordance with requirements of credit extensions and the relevant regulations, and classified by internal rating table.
- e. Bills discounted and loans of the Bank and its subsidiaries were all in accordance with requirements of credit extensions and the relevant regulations, and classified by internal rating model or table, the internal rating is classified as excellent, satisfactory, fair and weak, the probability of default can corresponds to the Standard & Poor's rating; Besides, those without credit ratings are risk exposures classified by credit rating (score) table, corresponding credit default rates are yet to be confirmed, mainly as a sovereign state, banks and overseas branches customers. The Bank adopted qualified external rating as the quality control tools for sovereign states and banks, and classified by rating table for overseas branches

- (B) The Bank and its subsidiaries' aging analysis of financial assets that were past due but not impaired  
Financial assets might be past due but not impaired due to borrower's processing delay or other administrative reasons. According to subsidiaries' internal management rules for assets assessment, financial assets which are past due within 90 days are not regarded as impaired unless there is objective evidence that the financial assets are impaired. There are very few conditions where financial assets are past due over 90 days but not impaired.

Unit: In NT Thousand Dollars

	December 31, 2016				Total
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	
Account receivable	\$ 20,126	\$ 8,091	\$ -	\$ -	\$ 28,217
Bills discounted and loans					
- Enterprise and commerce	314,767	45,004	-	-	359,771
- Individuals	1,150,070	771	-	-	1,150,841
Total	\$ 1,484,963	\$ 53,866	\$ -	\$ -	\$ 1,538,829

Unit: In US Thousand Dollars

	December 31, 2016				Total
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	
Account receivable	\$ 625	\$ 251	\$ -	\$ -	\$ 876
Bills discounted and loans					
- Enterprise and commerce	9,773	1,398	-	-	11,171
- Individuals	35,710	24	-	-	35,734
Total	\$ 46,108	\$ 1,673	\$ -	\$ -	\$ 47,781

Unit: In NT Thousand Dollars

	December 31, 2015				Total
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	
Account receivable	\$ 21,245	\$ 10,490	\$ -	\$ -	\$ 31,735
Bills discounted and loans					
- Government	655,052	-	-	-	655,052
- Enterprise and commerce	251,474	92,925	-	-	344,399
- Individuals	1,065,990	11,661	-	-	1,077,651
Total	\$ 1,993,761	\$ 115,076	\$ -	\$ -	\$ 2,108,837

- (C) The Bank and its subsidiaries' provisions for doubtful accounts analysis of impaired loans

Unit: In NT Thousand Dollars

	December 31, 2016								Provisions for doubtful accounts/ impaired loans %	
	Loans				Allowance for probable losses					
	Not impaired		Impaired		Not impaired		Impaired			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total	Loans net amount	
ROC	\$ -	\$ 1,261,478,161	\$ 10,588,311	\$ 728,542	\$ 1,272,795,014	\$ 2,383,636	\$ 17,338,574	\$ 19,722,210	\$ 1,253,072,804	174.27
Asia	-	275,312,574	900,184	8,259	276,221,017	295,756	3,781,923	4,077,679	272,143,338	448.86
North America	-	85,663,604	45,974	-	85,709,578	13,276	1,176,723	1,189,999	84,519,579	2,588.42
Others	-	106,139,662	1,093,357	14,370	107,247,389	246,136	1,458,208	1,704,344	105,543,045	153.86
Total	\$ -	\$ 1,728,594,001	\$ 12,627,826	\$ 751,171	\$ 1,741,972,998	\$ 2,938,804	\$ 23,755,428	\$ 26,694,232	\$ 1,715,278,766	

Unit: In US Thousand Dollars

	December 31, 2016								Provisions for doubtful accounts/ impaired loans %	
	Loans				Allowance for probable losses					
	Not impaired		Impaired		Not impaired		Impaired			
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total	Loans net amount	
ROC	\$ -	\$ 39,169,042	\$ 328,768	\$ 22,622	\$ 39,520,432	\$ 74,012	\$ 538,365	\$ 612,377	\$ 38,908,055	174.27
Asia	-	8,548,487	27,951	256	8,576,694	9,183	117,429	126,612	8,450,082	448.86
North America	-	2,659,864	1,428	-	2,661,292	412	36,537	36,949	2,624,343	2,588.42
Others	-	3,295,649	33,949	446	3,330,044	7,643	45,278	52,921	3,277,123	153.86
Total	\$ -	\$ 53,673,042	\$ 392,096	\$ 23,324	\$ 54,088,462	\$ 91,250	\$ 737,609	\$ 828,859	\$ 53,259,603	



Unit: In NT Thousand Dollars

	Loans				Allowance for probable losses				Provisions for doubtful accounts/ impaired loans %	
	Not impaired		Impaired							
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total		Loans net amount
ROC	\$ -	\$ 1,283,853,287	\$ 8,735,573	\$ 783,070	\$ 1,293,371,930	\$ 2,204,145	\$ 14,928,530	\$ 17,132,675	\$ 1,276,239,255	179.99
Asia	-	308,581,116	658,159	1,893	309,241,168	209,620	3,623,156	3,832,776	305,408,392	580.68
North America	-	92,893,489	436,768	-	93,330,257	110,650	1,087,023	1,197,673	92,132,584	274.21
Others	-	100,261,625	529,521	782	100,791,928	138,102	1,165,003	1,303,105	99,488,823	245.73
Total	\$ -	\$ 1,785,589,517	\$ 10,360,021	\$ 785,745	\$ 1,796,735,283	\$ 2,662,517	\$ 20,803,712	\$ 23,466,229	\$ 1,773,269,054	

## G. Foreclosed properties management policy

As of December 31, 2016 and 2015, other assets in the consolidated balance sheet include foreclosed properties' book value of the Bank and its subsidiaries both totaling NT\$0 thousand. According to the R.O.C. Banking Law, foreclosed properties of the Bank shall be sold within four years.

## H. Supplementary information in accordance with "Regulations Governing the Preparation of Financial Reports by Public Banks"

## (A) Asset quality of non-performing loans and overdue accounts

Unit: In NT Thousand Dollars, %

Month/Year		December 31, 2016				
Business/Items		Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans	\$ 653,250	\$ 662,796,704	0.10%	\$ 9,911,426	1517.25%
	Unsecured loans	741,285	684,542,363	0.11%	11,256,953	1518.57%
Consumer banking	Residential mortgage loans (Note 4)	360,832	301,248,288	0.12%	4,232,784	1173.06%
	Cash card services	-	-	-	-	-
	Small amount of credit loans (Note 5)	453	9,683,356	0.00%	133,531	29477.04%
	Others (Note 6)	Secured loans	93,991	83,537,591	0.11%	1,157,260
Unsecured loans		553	164,696	0.34%	2,278	411.93%
Gross loan business		\$ 1,850,364	\$ 1,741,972,998	0.11%	\$ 26,694,232	1442.65%
		Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services		\$ 8,354	\$ 4,431,609	0.19%	\$ 47,486	568.42%
Without recourse factoring (Note 7)		\$ -	\$ 36,988,054	-	\$ 555,759	-

Unit: In US Thousand Dollars, %

Month/Year		December 31, 2016				
Business/Items		Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans	\$ 20,284	\$ 20,579,914	0.10%	\$ 307,751	1517.25%
	Unsecured loans	23,017	21,255,119	0.11%	349,530	1518.57%
Consumer banking	Residential mortgage loans (Note 4)	11,204	9,353,794	0.12%	131,428	1173.06%
	Cash card services	-	-	-	-	-
	Small amount of credit loans (Note 5)	14	300,669	0.00%	4,146	29477.04%
	Others (Note 6)	Secured loans	2,918	2,593,852	0.11%	35,933
Unsecured loans		17	5,114	0.34%	71	411.93%
Gross loan business		\$ 57,454	\$ 54,088,462	0.11%	\$ 828,859	1442.65%
		Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services		\$ 259	\$ 137,602	0.19%	\$ 1,474	568.42%
Without recourse factoring (Note 7)		\$ -	\$ 1,148,483	-	\$ 17,256	-

Unit: In NT Thousand Dollars, %

Month/Year		December 31, 2015					
Business/Items		Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)	
Corporate Banking	Secured loans	\$ 473,008	\$ 651,622,322	0.07%	\$ 8,173,030	1727.88%	
	Unsecured loans	629,388	753,801,141	0.08%	10,615,113	1686.58%	
Consumer banking	Residential mortgage loans (Note 4)	478,119	296,699,744	0.16%	3,552,218	742.96%	
	Cash card services	-	-	-	-	-	
	Small amount of credit loans (Note 5)	750	5,477,886	0.01%	64,880	8650.67%	
	Others (Note 6)	Secured loans	18,308	88,931,480	0.02%	1,058,568	5782.00%
		Unsecured loans	735	202,710	0.36%	2,420	329.25%
Gross loan business		\$ 1,600,308	\$ 1,796,735,283	0.09%	\$ 23,466,229	1466.36%	
		Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio	
Credit card services		\$ 8,746	\$ 4,377,178	0.20%	\$ 49,579	566.88%	
Without recourse factoring (Note 7)		\$ -	\$ 37,366,842	-	\$ 560,562	-	

Notes:

1. The amount recognized as non-performing loans is in accordance with the "Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". The amount included in overdue accounts for credit cards is in accordance with the Financial-Supervisory-Banks (4) Letter No.0944000378 dated July 6, 2005.
2. Non-performing loan ratio = non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.
3. Coverage ratio for loans=allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards=allowance for doubtful accounts for accounts receivable of credit cards/overdue accounts.
4. For residential mortgage loans, the borrower provides his/her (or spouses or minor) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.
5. Small amount of credit loans apply to the norms of the Financial-Supervisory-Banks (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.
6. Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loan, cash card services and small amount of credit loans, and excluding credit card services
7. Pursuant to the Financial-Supervisory-Banks (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

(B) Non-performing loans and overdue receivables exempted from reporting to the competent authority

Unit: In NT Thousand Dollars

	December 31, 2016	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	\$ -	\$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	377	3,017
	\$ 377	\$ 3,017

Unit: In US Thousand Dollars

	December 31, 2016	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	\$ -	\$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	12	94
	\$ 12	\$ 94

Unit: In NT Thousand Dollars

December 31, 2015		
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	\$ 16	\$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	402	3,383
	\$ 418	\$ 3,383

Note 1: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with Financial-Supervisory-Banks (1) Letter No. 09510001270 dated April 25, 2006.

Note 2: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt liquidation program and restructuring program in accordance with Financial-Supervisory-Banks (1) Letter No. 09700318940 dated September 15, 2008 and Financial-Supervisory-Banks Letter No. 10500134790 dated September 20, 2016.

## (C) The Bank and its subsidiaries contract amounts of significant credit risk concentration are as follows :

Unit: In NT Thousand Dollars, In US Thousand Dollars %

December 31, 2016				
Year	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)		Total outstanding loan amount / net worth of the current year (%)
Ranking (Note 1)		NT\$	US\$	
1	A Company - Transport via Railways	59,062,727	1,833,904	22.93%
2	B Group - Manufacture of Petroleum and Coal Products	43,746,385	1,358,330	16.98%
3	C Group - Air Transport	21,405,880	664,655	8.31%
4	D Group - Other Financial Service Activities Not Elsewhere Classified	20,626,772	640,464	8.01%
5	E Group - Rolling and Extruding of Iron and Steel	19,074,465	592,264	7.41%
6	F Group - Other Financial Service Activities Not Elsewhere Classified	17,930,597	556,747	6.96%
7	G Group - Other Retail Sale in Non-specialized Stores	17,355,326	538,885	6.74%
8	H Group - Investment Advisory Services	17,296,179	537,048	6.72%
9	I Group - Real Estate Development Activities	15,888,845	493,350	6.71%
10	J Group - Ocean Freight Transportation Forwarding Services	15,184,618	471,484	5.90%

Unit: In NT Thousand Dollars, %

December 31, 2015			
Year	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
Ranking (Note 1)		NT\$	
1	A Company - Transport via Railways	64,823,200	25.57%
2	B Group - Manufacture of Petroleum and Coal Products	41,111,940	16.22%
3	C Group - Ocean transportation	24,892,462	9.82%
4	D Group - Other Financial Service Activities Not Elsewhere Classified	23,417,329	9.24%
5	E Group - Smelting and Refining of Iron and Steel	18,565,116	7.32%
6	F Group - Other Financial Service Activities Not Elsewhere Classified	18,510,217	7.30%
7	G Group - Rolling and Extruding of Iron and Steel	16,456,579	6.49%
8	H Group - Manufacture of Liquid Crystal Panel and Components	15,298,070	6.03%
9	I Group - Other Retail Sale in Non-specialized Stores	15,267,842	6.02%
10	J Group - Real Estate Development Activities	14,143,100	5.58%

Note 1: Ranking the top ten enterprise groups other than government and government enterprise according to their total amounts of outstanding loans. If an outstanding loan belongs to an enterprise group, the outstanding loan of the enterprise group should be categorized and listed in total, and disclosed by "code" plus "industry type" (for example, company (or group) A - Liquid Crystal Panel and Components Manufacturing). If it is an enterprise group, industry type of maximum exposure of the enterprise group would be disclosed. Industry type should be filled in accordance with "Standard Industrial Classification System" of Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

Note 2: Definition of enterprise group is based on Article 6 of Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptance receivable and guarantees.

(4) Liquidity risk

A. Definition and sources of liquidity risk

The Bank and its subsidiaries define liquidity risk as the risk of financial loss to the Bank and its subsidiaries arising from default by any companies of financial instruments on the payment obligations. For example, the companies are default on payment obligations, such as withdrawals paid to depositors and loans repayment. Or, the company is unable to obtain funds within a certain period at reasonable cost in response to increased demand for assets.

B. Procedures for liquidity risk management and measurement of liquidity risk

The Bank and its subsidiaries are mainly engaged in industry related to finance. Therefore, the management for capital liquidity is very important to the Bank and its subsidiaries. The objectives for liquidity risk management are (a) Meet the liquidity index regulation (b) Maintain reasonable liquidity based on business development plans, ensure capability of daily payment obligations and meet business growth requirements with adequate highly-liquid assets and capability of raising funds from others in case of emergency.

The financial department of the Bank and its subsidiaries is responsible for daily capital liquidity management. According to the limits authorized by the Board of (Managing) Directors, the Bank and its subsidiaries monitor the indexes of liquidity risk, execute capital procurement trading and report the conditions of capital liquidity to the management. The Bank and its subsidiaries also reports the liquidity risk control to the Fund Management Committee, Risk Management Committee and the Board of (Managing) Directors regularly, and performs regular liquidity stress-testing to ensure sufficient capital to meet the funding requirements for increase in assets and payment obligations.

The Bank and its subsidiaries daily perform intensive control over capital sources and the period for fund gaps and liquidity risk management. Future cash flows are estimated based on the financial liability contracts due date and expected cash collection date of financial assets. The Bank and its subsidiaries also take into account the extent of practical utilization of capital in contingent liabilities such as use of loan limits, guarantees and commitments.

Assets used to pay obligations and loan commitments including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, bills and bonds purchased under resale agreement, receivables, bills discounted and loans, available-for-sale financial assets, held-to-maturity financial assets, and other financial assets are held in response to unexpected cash outflows.

The liquidity management policies of the Bank and its subsidiaries include:

- (A) Maintain the ability to perform all payment obligations immediately.
- (B) Maintain solid assets/liabilities structure to ensure medium and long-term liquidity safety.
- (C) Diversify capital sources and absorb stable core depositors to avoid depending on certain large-sum depositors.
- (D) Avoid potential unknown loss risk which will increase capital cost and capital procurement pressure.
- (E) Conduct due date management to ensure that cash inflow is greater than cash outflow in short term.
- (F) Keep liquidity ratio.
- (G) Keep legal ratio for high-quality, high-liquidity assets.
- (H) Be aware of the liquidity, safety and diversity of financial instruments.
- (I) The Bank and its subsidiaries have capital emergency plans, which are reviewed regularly.
- (J) The overseas branches of the Bank and its subsidiaries must obey the regulations of R.O.C. and the local supervisory authorities. Otherwise, they will be penalized for violation of these regulations.

C. Maturity date analysis for non-derivative financial assets and liabilities

The table below lists analysis for cash inflow and outflow of the non-derivative financial assets and liabilities held by the Bank and its subsidiaries for liquidity risk management based on the remaining period at the financial reporting date to the contractual maturity date.

(Blank below)

The Bank and its subsidiaries' analysis for capital maturity gaps

UNIT : In NT Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
<b>Primary funds inflow upon maturity</b>							
Cash and cash equivalents	\$ 45,378,115	\$ 35,001,901	\$ 8,024,994	\$ 2,123,915	\$ -	\$ -	\$ 90,528,925
Due from the Central Bank and call loans to banks	475,112,300	53,732,255	9,009,059	2,638,166	-	-	540,491,780
Financial assets at fair value through profit or loss	5,647,992	1,203,373	550,142	2,750,877	29,881,502	3,071,449	43,105,335
Bills and bonds purchased under resale agreements	4,256,613	-	-	-	-	-	4,256,613
Receivables	56,280,422	23,534,494	5,932,201	8,506,613	344,659	325	94,598,714
Bills discounted and loans available-for-sale financial assets	78,899,118	119,537,352	209,351,303	195,420,919	757,684,688	488,975,036	1,849,868,416
Held-to-maturity financial assets	38,609,557	15,239,037	9,589,614	15,620,227	141,720,173	76,434,077	297,212,685
Other financial assets	127,391,787	34,719,381	24,655,088	68,974,861	24,181,450	6,690	279,929,257
Total	<u>831,577,313</u>	<u>282,970,611</u>	<u>267,115,219</u>	<u>296,045,441</u>	<u>953,812,472</u>	<u>568,493,185</u>	<u>3,200,014,241</u>
<b>Primary funds outflow upon maturity</b>							
Due to the Central Bank and commercial bank	336,305,752	6,623,886	5,733,263	6,239,878	30,516,426	649,286	386,068,491
Borrowed funds	27,677,843	7,304,654	4,991,930	-	-	-	39,974,427
Financial liabilities at fair value through profit or loss	8,237,292	1,187	-	3,313	16,875	12,500	8,271,167
Bills and bonds sold under repurchased agreements	170,716	274,172	-	-	-	-	444,888
Payables	54,266,812	4,018,201	1,703,901	3,467,386	305,167	5,679,352	69,440,819
Deposits and remittances	394,197,787	317,587,266	195,869,354	401,713,594	862,895,914	17,860,493	2,190,124,408
Financial bonds payable	-	83,300	213,940	10,585,570	26,945,810	-	37,828,620
Other financial liabilities	6,190,044	1,875,248	6,792	2,152	291,443	226,940	8,592,619
Other liabilities	127,091	254,181	254,182	889,636	-	-	1,525,090
Total	<u>827,173,337</u>	<u>338,022,095</u>	<u>208,773,362</u>	<u>422,901,529</u>	<u>920,971,635</u>	<u>24,428,571</u>	<u>2,742,270,529</u>
Gap	<u>\$ 4,403,976</u>	<u>(\$ 55,051,484)</u>	<u>\$ 58,341,857</u>	<u>(\$ 126,856,088)</u>	<u>\$ 32,840,837</u>	<u>\$ 544,064,614</u>	<u>\$ 457,743,712</u>

(Blank below)

UNIT : In US Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Primary funds inflow upon maturity							
Cash and cash equivalents	\$ 1,408,996	\$ 1,086,813	\$ 249,177	\$ 65,948	\$ -	\$ -	\$ 2,810,934
Due from the Central Bank and call loans to banks	14,752,291	1,668,393	279,732	81,915	-	-	16,782,331
Financial assets at fair value through profit or loss	175,371	37,365	17,082	85,415	927,824	95,369	1,338,426
Bills and bonds purchased under resale agreements	132,168	-	-	-	-	-	132,168
Receivables	1,747,513	730,749	184,196	264,131	10,702	10	2,937,301
Bills discounted and loans	2,449,827	3,711,648	6,500,382	6,067,842	23,526,197	15,182,731	57,438,627
Available-for-sale financial assets	1,198,831	473,174	297,759	485,010	4,400,427	2,373,287	9,228,488
Held-to-maturity financial assets	3,955,530	1,078,041	765,543	2,141,677	750,837	208	8,691,836
Other financial assets	44	87	87	307	-	174	699
Total	<u>25,820,571</u>	<u>8,786,270</u>	<u>8,293,958</u>	<u>9,192,245</u>	<u>29,615,987</u>	<u>17,651,779</u>	<u>99,360,810</u>
Primary funds outflow upon maturity							
Due to the Central Bank and commercial bank	10,442,332	205,673	178,018	193,749	947,539	20,160	11,987,471
Borrowed funds	859,400	226,811	155,000	-	-	-	1,241,211
Financial liabilities at fair value through profit or loss	255,769	37	-	103	524	388	256,821
Bills and bonds sold under repurchased agreements	5,301	8,513	-	-	-	-	13,814
Payables	1,684,991	124,765	52,906	107,663	9,475	176,345	2,156,145
Deposits and remittances	12,239,887	9,861,121	6,081,766	12,473,253	26,793,017	554,570	68,003,614
Financial bonds payable	-	2,586	6,643	328,683	836,671	-	1,174,583
Other financial liabilities	192,202	58,226	211	67	9,049	7,047	266,802
Other liabilities	3,946	7,893	7,892	27,623	-	-	47,354
Total	<u>25,683,828</u>	<u>10,495,625</u>	<u>6,482,436</u>	<u>13,131,141</u>	<u>28,596,275</u>	<u>758,510</u>	<u>85,147,815</u>
Gap	<u>\$ 136,743</u>	<u>(\$ 1,709,355)</u>	<u>\$ 1,811,522</u>	<u>(\$ 3,938,896)</u>	<u>\$ 1,019,712</u>	<u>\$ 16,893,269</u>	<u>\$ 14,212,995</u>

UNIT : In NT Thousand Dollars

	December 31, 2015						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Primary funds inflow upon maturity							
Cash and cash equivalents	\$ 101,918,087	\$ 23,532,902	\$ 20,118,784	\$ -	\$ -	\$ -	\$ 145,569,773
Due from the Central Bank and call loans to banks	394,350,430	101,434,856	8,874,650	1,676,660	-	-	506,336,596
Financial assets at fair value through profit or loss	7,052,315	1,492,989	1,798,695	2,043,083	28,147,853	3,020,948	43,555,883
Bills and bonds purchased under resale agreements	8,987,482	449,602	-	-	-	-	9,437,084
Receivables	78,325,971	34,413,142	18,563,695	44,794,072	7,998,052	320	184,095,252
Bills discounted and loans	90,728,470	141,151,096	202,332,823	198,691,684	766,200,199	516,170,533	1,915,274,805
Available-for-sale financial assets	71,867,920	22,495,506	34,328,834	14,541,734	108,251,530	90,524,452	342,009,976
Held-to-maturity financial assets	147,266,261	6,576,911	5,640,609	10,519,875	29,780,160	17,282	199,801,098
Other financial assets	910	1,821	1,872	5,524	920	5,626	16,673
Total	<u>900,497,846</u>	<u>331,548,825</u>	<u>291,659,962</u>	<u>272,272,632</u>	<u>940,378,714</u>	<u>609,739,161</u>	<u>3,346,097,140</u>
Primary funds outflow upon maturity							
Due to the Central Bank and commercial bank	373,627,002	2,928,429	5,928,353	5,501,789	31,328,459	650,508	419,964,540
Borrowed funds	41,808,935	2,959,581	-	176,264	514,314	-	45,459,094
Financial liabilities at fair value through profit or loss	17,231,965	1,188	-	4,312	-	16,188	17,253,653
Bills and bonds sold under repurchased agreements	252,175	295,977	-	-	-	-	548,152
Payables	62,756,957	6,797,971	1,496,353	3,271,059	872,628	5,679,346	80,874,314
Deposits and remittances	459,280,762	281,735,766	234,270,921	396,657,011	865,188,659	17,417,559	2,254,550,678
Financial bonds payable	-	83,300	213,940	285,570	25,628,170	12,200,450	38,411,430
Other financial liabilities	5,895,094	2,322,303	2,888	36,038	139,304	287,104	8,682,731
Other liabilities	177,880	355,759	365,641	1,079,136	179,856	-	2,158,272
Total	<u>961,030,770</u>	<u>297,480,274</u>	<u>242,278,096</u>	<u>407,011,179</u>	<u>923,851,390</u>	<u>36,251,155</u>	<u>2,867,902,864</u>
Gap	<u>(\$ 60,532,924)</u>	<u>\$ 34,068,551</u>	<u>\$ 49,381,866</u>	<u>(\$ 134,738,547)</u>	<u>\$ 16,527,324</u>	<u>\$ 573,488,006</u>	<u>\$ 478,194,276</u>

D. Structure analysis for maturity of derivative financial assets and liabilities

(A) Derivatives settled on a net basis

Derivatives of the Bank and its subsidiaries settled on a net basis include:

- a. Foreign exchange derivatives: currency option, non-delivery forward
- b. Interest derivatives: forward rate agreement, interest rate swap, assets swap, interest rate option, bond option, interest rate futures.
- c. Credit derivatives: credit default swaps (CDS).
- d. Equity derivative: stock option
- e. Others: combined commodity

UNIT : In NT Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Foreign exchange derivative instruments							
Inflow	\$ 278,109	\$ 21,204	\$ 217,172	\$ 193,270	\$ 607	\$ -	\$ 710,362
Outflow	275,216	16,688	204,314	178,911	-	-	675,129
Interest rate derivative instruments							
Inflow	104,139	157,958	230,830	783,552	3,556,882	4,957,305	9,790,666
Outflow	119,528	134,626	221,582	520,089	2,955,843	21,449,704	25,401,372
Credit derivative instruments							
Inflow	-	74,301	75,025	137,014	514,761	-	801,101
Outflow	-	-	-	-	-	-	-
<b>Total inflows</b>	<b>\$ 382,248</b>	<b>\$ 253,463</b>	<b>\$ 523,027</b>	<b>\$ 1,113,836</b>	<b>\$ 4,072,250</b>	<b>\$ 4,957,305</b>	<b>\$ 11,302,129</b>
<b>Total outflows</b>	<b>\$ 394,744</b>	<b>\$ 151,314</b>	<b>\$ 425,896</b>	<b>\$ 699,000</b>	<b>\$ 2,955,843</b>	<b>\$ 21,449,704</b>	<b>\$ 26,076,501</b>

UNIT : In US Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Foreign exchange derivative instruments							
Inflow	\$ 8,635	\$ 658	\$ 6,743	\$ 6,001	\$ 19	\$ -	\$ 22,056
Outflow	8,545	519	6,344	5,555	-	-	20,963
Interest rate derivative instruments							
Inflow	3,234	4,905	7,167	24,329	110,442	153,925	304,002
Outflow	3,711	4,180	6,880	16,149	91,779	666,016	788,715
Credit derivative instruments							
Inflow	-	2,307	2,330	4,254	15,983	-	24,874
Outflow	-	-	-	-	-	-	-
<b>Total inflows</b>	<b>\$ 11,869</b>	<b>\$ 7,870</b>	<b>\$ 16,240</b>	<b>\$ 34,584</b>	<b>\$ 126,444</b>	<b>\$ 153,925</b>	<b>\$ 350,932</b>
<b>Total outflows</b>	<b>\$ 12,256</b>	<b>\$ 4,699</b>	<b>\$ 13,224</b>	<b>\$ 21,704</b>	<b>\$ 91,779</b>	<b>\$ 666,016</b>	<b>\$ 809,678</b>

UNIT : In NT Thousand Dollars

	December 31, 2015						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Foreign exchange derivative instruments							
Inflow	\$ 419,794	\$ 110,923	\$ 199,432	\$ 468,281	\$ 469,817	\$ -	\$ 1,668,247
Outflow	436,364	101,085	189,174	443,603	449,609	-	1,619,835
Interest rate derivative instruments							
Inflow	50,280	169,925	184,707	1,103,979	5,530,082	22,163,837	29,202,810
Outflow	65,801	182,948	253,605	430,140	3,474,038	4,222,911	8,629,443
Credit derivative instruments							
Inflow	-	69,983	69,855	131,827	548,703	-	820,368
Outflow	-	-	-	-	-	-	-
<b>Total inflows</b>	<b>\$ 470,074</b>	<b>\$ 350,831</b>	<b>\$ 453,994</b>	<b>\$ 1,704,087</b>	<b>\$ 6,548,602</b>	<b>\$ 22,163,837</b>	<b>\$ 31,691,425</b>
<b>Total outflows</b>	<b>\$ 502,165</b>	<b>\$ 284,033</b>	<b>\$ 442,779</b>	<b>\$ 873,743</b>	<b>\$ 3,923,647</b>	<b>\$ 4,222,911</b>	<b>\$ 10,249,278</b>

(B) Derivatives settled on a gross basis

Derivatives of the Bank and its subsidiaries settled on a gross basis include:

- a. Foreign exchange derivatives: forward exchange
- b. Interest derivatives: cross currency swaps and currency swaps

UNIT : In NT Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Foreign exchange derivative instruments							
Inflow	\$ 30,197,850	\$ 18,201,973	\$ 7,524,575	\$ 2,406,361	\$ 511,876	\$ -	\$ 58,842,635
Outflow	30,211,238	18,192,363	7,553,978	2,422,939	515,424	-	58,895,942
Interest rate derivative instruments							
Inflow	284,272,580	162,606,566	73,320,046	34,026,932	32,427	-	554,258,551
Outflow	282,968,234	162,045,158	73,151,435	33,799,850	29,688	-	551,994,365
<b>Total inflows</b>	<b>\$ 314,470,430</b>	<b>\$ 180,808,539</b>	<b>\$ 80,844,621</b>	<b>\$ 36,433,293</b>	<b>\$ 544,303</b>	<b>\$ -</b>	<b>\$ 613,101,186</b>
<b>Total outflows</b>	<b>\$ 313,179,472</b>	<b>\$ 180,237,521</b>	<b>\$ 80,705,413</b>	<b>\$ 36,222,789</b>	<b>\$ 545,112</b>	<b>\$ -</b>	<b>\$ 610,890,307</b>

UNIT : In US Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Foreign exchange derivative instruments							
Inflow	\$ 937,647	\$ 565,173	\$ 233,639	\$ 74,718	\$ 15,894	\$ -	\$ 1,827,071
Outflow	938,062	564,875	234,552	75,233	16,004	-	1,828,726
Interest rate derivative instruments							
Inflow	8,826,696	5,048,953	2,276,596	1,056,540	1,007	-	17,209,792
Outflow	8,786,196	5,031,521	2,271,360	1,049,489	922	-	17,139,488
<b>Total inflows</b>	<b>\$ 9,764,343</b>	<b>\$ 5,614,126</b>	<b>\$ 2,510,235</b>	<b>\$ 1,131,258</b>	<b>\$ 16,901</b>	<b>\$ -</b>	<b>\$ 19,036,863</b>
<b>Total outflows</b>	<b>\$ 9,724,258</b>	<b>\$ 5,596,396</b>	<b>\$ 2,505,912</b>	<b>\$ 1,124,722</b>	<b>\$ 16,926</b>	<b>\$ -</b>	<b>\$ 18,968,214</b>

UNIT : In NT Thousand Dollars

	December 31, 2015						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Foreign exchange derivative instruments							
Inflow	\$ 36,982,855	\$ 18,200,017	\$ 6,624,541	\$ 6,855,960	\$ 207,784	\$ -	\$ 68,871,157
Outflow	37,113,008	18,178,305	6,694,306	6,805,919	206,636	-	68,998,174
Interest rate derivative instruments							
Inflow	287,052,683	154,550,737	98,456,581	25,737,148	238,315	3,390,391	569,425,855
Outflow	285,730,849	153,920,189	97,454,281	25,566,614	237,151	3,069,753	565,978,837
<b>Total inflows</b>	<b>\$ 324,035,538</b>	<b>\$ 172,750,754</b>	<b>\$ 105,081,122</b>	<b>\$ 32,593,108</b>	<b>\$ 446,099</b>	<b>\$ 3,390,391</b>	<b>\$ 638,297,012</b>
<b>Total outflows</b>	<b>\$ 322,843,857</b>	<b>\$ 172,098,494</b>	<b>\$ 104,148,587</b>	<b>\$ 32,372,533</b>	<b>\$ 443,787</b>	<b>\$ 3,069,753</b>	<b>\$ 634,977,011</b>

E. Analysis for off-balance sheet contractual commitments

UNIT : In NT Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Irrevocable commitments	\$ 559,687	\$ 969,790	\$ 58,619,353	\$ 8,386,759	\$ 25,266,226	\$ 77,985,498	\$ 171,787,313
Financial guarantee contracts	48,952,334	58,435,802	40,052,670	88,858,404	20,169,882	558,802	257,027,894
<b>Total</b>	<b>\$ 49,512,021</b>	<b>\$ 59,405,592</b>	<b>\$ 98,672,023</b>	<b>\$ 97,245,163</b>	<b>\$ 45,436,108</b>	<b>\$ 78,544,300</b>	<b>\$ 428,815,207</b>

UNIT : In US Thousand Dollars

	December 31, 2016						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Irrevocable commitments	\$ 17,378	\$ 30,112	\$ 1,820,138	\$ 260,410	\$ 784,519	\$ 2,421,459	\$ 5,334,016
Financial guarantee contracts	1,519,975	1,814,438	1,243,640	2,759,064	626,277	17,351	7,980,745
<b>Total</b>	<b>\$ 1,537,353</b>	<b>\$ 1,844,550</b>	<b>\$ 3,063,778</b>	<b>\$ 3,019,474</b>	<b>\$ 1,410,796</b>	<b>\$ 2,438,810</b>	<b>\$ 13,314,761</b>

UNIT : In NT Thousand Dollars

	December 31, 2015						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Irrevocable commitments	\$ 972,703	\$ 870,438	\$ 59,846,527	\$ 2,695,566	\$ 23,113,052	\$ 78,610,712	\$ 166,108,998
Financial guarantee contracts	51,556,895	54,250,919	42,740,400	98,310,823	24,631,458	1,357,667	272,848,162
<b>Total</b>	<b>\$ 52,529,598</b>	<b>\$ 55,121,357</b>	<b>\$ 102,586,927</b>	<b>\$ 101,006,389</b>	<b>\$ 47,744,510</b>	<b>\$ 79,968,379</b>	<b>\$ 438,957,160</b>

- a. Off-balance sheet items include irrevocable commitments and financial guarantee contracts
- b. Irrevocable commitments include irrevocable arranged financing limit and credit card line commitments
- c. Financial guarantee contracts refer to guarantees and letters of credit issued



F. Analysis for maturity leasing contractual commitments

UNIT : In NT Thousand Dollars

	December 31, 2016			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
Non-cancellable aggregate minimum lease payments	\$ 460,271	\$ 775,082	\$ 627,779	\$ 1,863,132
Non-cancellable aggregate minimum lease income	159,920	205,063	6,705	371,688
Net payment	<u>\$ 300,351</u>	<u>\$ 570,019</u>	<u>\$ 621,074</u>	<u>\$ 1,491,444</u>

UNIT : In US Thousand Dollars

	December 31, 2016			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
Non-cancellable aggregate minimum lease payments	\$ 14,291	\$ 24,066	\$ 19,493	\$ 57,850
Non-cancellable aggregate minimum lease income	4,966	6,367	208	11,541
Net payment	<u>\$ 9,325</u>	<u>\$ 17,699</u>	<u>\$ 19,285</u>	<u>\$ 46,309</u>

UNIT : In NT Thousand Dollars

	December 31, 2015			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
Non-cancellable aggregate minimum lease payments	\$ 492,649	\$ 829,010	\$ 679,729	\$ 2,001,388
Non-cancellable aggregate minimum lease income	160,166	243,163	12,233	415,562
Net payment	<u>\$ 332,483</u>	<u>\$ 585,847</u>	<u>\$ 667,496</u>	<u>\$ 1,585,826</u>

G. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

(A) Maturity analysis of NTD financial instruments of the Bank

UNIT: In NT Thousand Dollars

	December 31, 2016						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 1,755,269,500	\$ 168,414,595	\$ 180,071,201	\$ 191,975,919	\$ 198,777,659	\$ 202,400,836	\$ 813,629,290
Primary funds outflow upon maturity	2,437,483,830	109,575,849	173,464,798	298,729,968	275,651,699	481,489,585	1,098,571,931
Gap	<u>(\$ 682,214,330)</u>	<u>\$ 58,838,746</u>	<u>\$ 6,606,403</u>	<u>(\$ 106,754,049)</u>	<u>(\$ 76,874,040)</u>	<u>(\$ 279,088,749)</u>	<u>(\$ 284,942,641)</u>

UNIT: In US Thousand Dollars

	December 31, 2016						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 54,501,320	\$ 5,229,293	\$ 5,591,232	\$ 5,960,874	\$ 6,172,069	\$ 6,284,569	\$ 25,263,283
Primary funds outflow upon maturity	75,684,153	3,402,343	5,386,102	9,275,599	8,559,017	14,950,307	34,110,785
Gap	<u>(\$ 21,182,833)</u>	<u>\$ 1,826,950</u>	<u>\$ 205,130</u>	<u>(\$ 3,314,725)</u>	<u>(\$ 2,386,948)</u>	<u>(\$ 8,665,738)</u>	<u>(\$ 8,847,502)</u>

UNIT: In NT Thousand Dollars

	December 31, 2015						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 1,713,321,538	\$ 152,807,613	\$ 212,108,363	\$ 149,411,023	\$ 123,835,595	\$ 183,338,830	\$ 891,820,114
Primary funds outflow upon maturity	2,493,940,047	94,231,560	198,816,170	271,669,356	307,279,804	522,259,322	1,099,683,835
Gap	<u>(\$ 780,618,509)</u>	<u>\$ 58,576,053</u>	<u>\$ 13,292,193</u>	<u>(\$ 122,258,333)</u>	<u>(\$ 183,444,209)</u>	<u>(\$ 338,920,492)</u>	<u>(\$ 207,863,721)</u>

(B) Maturity analysis of USD financial instruments of the Bank

UNIT: In US Thousand Dollars

December 31, 2016						
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 49,616,397	\$ 19,875,115	\$ 7,124,975	\$ 3,407,806	\$ 2,521,586	\$ 16,686,915
Primary funds outflow upon maturity	61,855,679	22,461,490	8,469,306	5,147,899	6,649,376	19,127,608
Gap	(\$ 12,239,282)	(\$ 2,586,375)	(\$ 1,344,331)	(\$ 1,740,093)	(\$ 4,127,790)	(\$ 2,440,693)

December 31, 2015						
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 49,192,216	\$ 19,824,266	\$ 6,928,530	\$ 4,372,053	\$ 3,886,530	\$ 14,180,837
Primary funds outflow upon maturity	65,418,953	23,744,666	9,451,321	6,520,937	8,066,411	17,635,618
Gap	(\$ 16,226,737)	(\$ 3,920,400)	(\$ 2,522,791)	(\$ 2,148,884)	(\$ 4,179,881)	(\$ 3,454,781)

Note 1: The funds denominated in US dollars means the amount of all US dollars of the Bank.

Note 2: If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

(C) Maturity analysis of USD financial instruments of the foreign branches

UNIT : In US Thousand Dollars

December 31, 2016						
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 19,234,224	\$ 10,148,675	\$ 2,547,692	\$ 790,346	\$ 825,862	\$ 4,921,649
Primary funds outflow upon maturity	21,533,211	10,478,428	1,219,097	844,573	818,041	8,173,072
Gap	(\$ 2,298,987)	(\$ 329,753)	\$ 1,328,595	(\$ 54,227)	\$ 7,821	(\$ 3,251,423)

December 31, 2015						
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	\$ 18,389,498	\$ 9,879,840	\$ 1,940,168	\$ 872,192	\$ 883,489	\$ 4,813,809
Primary funds outflow upon maturity	21,068,444	12,305,964	1,083,854	942,448	1,188,771	5,547,407
Gap	(\$ 2,678,946)	(\$ 2,426,124)	\$ 856,314	(\$ 70,256)	(\$ 305,282)	(\$ 733,598)

(5) Market risk

A. Definition of market risk

Market risk refers the potential losses of the Bank's and its subsidiaries' on-balance-sheet and off-balance-sheet positions due to the Bank and its subsidiaries enduring fluctuations of market prices (for example: fluctuations of market interest, exchange rates, stock prices and price of products).

B. Objective of market risk management

The objective of the Bank's and its subsidiaries' market risk management is to confine risks within a tolerable scope to avoid the fluctuations of financial product prices impacting future returns and the values of assets and liabilities.

C. Market risk management policies and procedures

The Board of (Managing) Directors decided the risk tolerant limits, position limits, and loss limits. Market risk management comprises trading book control and banking book control. Trading book operation mainly pertains to the positions held by bills and securities firms due to market making. Policies for financial instrument trading of bank are based on back-to-back operation principle. Banking book is based on held-to-maturity principle and adopts hedging measures.

D. Procedures for market risk management

(A) The Bank's objectives of market risk management are respectively proposed by The Treasury Department and Risk Management Department, and then Risk Management Department summarizes and reports these objectives to Risk Management Committee of Mega Financial Holdings and the Bank's Board of Directors for assessment.

(B) Risk Management Department not only prepares statement of market risk position and profit and loss of various financial instruments but regularly compiles securities investment performance evaluation and reports to the Board of (Managing) Directors for the Board's knowledge of the Bank's risk control over securities investment. Risk Management Department summarizes and analyzes information on a daily basis. Besides, Risk Management Department monthly summarizes and analyzes data collected from positions of various financial instruments, profit and loss assessment, analysis on risk-sensitive factors, and stress testing for senior management's knowledge of the Bank's market risk exposure profile.

E. Market risk measurement and control principle

- (A) The Bank's market risk report contains interest rate, exchange rate, positions of equity securities, credit default swap (CDS) and profit and loss assessment. Every transaction has limit and stop-loss provisions, which shall be submitted to approval management in accordance with the Bank's regulations. Stop-loss limit shall be implemented as soon as a transaction reaches the threshold. If no stop-loss limit will be implemented, trading units shall immediately make statement about reasons to not implement stop-loss limit and coping plan, which shall be submitted to senior management for approval and reported to the Board of (Managing) Directors regularly.
- (B) Non-hedging trading positions of derivative financial instruments are daily assessed based on the market value, whereas hedging trading positions of futures are daily assessed and others are assessed twice a month.
- (C) SUMMIT information system and DW information system for market risk provides functions in relation to risk management such as real-time limits, profit and loss assessment, analysis on risk-sensitive factors, stress testing, etc.

F. Policies and procedures of trading-book risk management

The Bank and its subsidiaries daily monitor trading-book positions, changes in risk exposures, and various risk limits, including trading rooms, traders and product line risk limits.

If trading-book financial instruments have market price, the valuation of those instruments is conducted at least one time daily using the independent source and available information. If using mathematical model valuation, the assumptions and parameters used in the model are reviewed regularly.

The method of risk measurement is sensitivity analysis.

The Bank and its subsidiaries conduct stress test on the positions of its interest rate, equity securities, foreign exchange rate products and credit default swap (CDS) on the assumptions of the monthly change in interest rate, securities market index, foreign exchange rate and CDS by 1%, 15%, 3% and 100 base points, respectively, and reports to the Risk Management Committee.

G. Trading-book interest rate risk management

Trading-book interest rate risk refers to the financial loss of the decline in values of interest rate products held due to unfavorable changes in interest rates, including securities and derivatives with interest.

The Bank and its subsidiaries interest rate products are traded mainly for hedging.

The trading group screens the credits and financial positions of issuers and selects investment objectives by judging interest rate trend and a variety of country risks and based on the authorized minimum investment criteria. The Bank and its subsidiaries set trading-book trading limits and stop-loss limits (including trading rooms, traders, trading products, counterparties, and daily and overnight limits) based on business strategies and market conditions, and measure monthly the extent of impact of interest rate risk on investment portfolios using DV01 value.

H. Banking book interest rate risk management

Banking book interest rate risk mainly comes from the unmatched maturity dates of assets and liabilities or price resetting dates, and inconsistent changes in base interest rates for assets and liabilities. The Bank and its subsidiaries' interest rate risk mainly comes from the unmatched periods of interest-rate sensitive assets and liabilities of the Bank and its subsidiaries.

As the Bank and its subsidiaries have interest-rate sensitive gaps, market interest rate fluctuations have good or bad impacts on the Bank and its subsidiaries' earnings and cash flows.

The Bank and its subsidiaries manage Banking book interest rate risk by using repricing gap analysis. The interest-rate repricing gap analysis is to estimate the difference between the assets and liabilities with interest bearing that are to be due near or repriced within a certain period and measure the impact of interest rate change on net interest revenue. The analysis assumes assets and liabilities structure remain unchanged and there are parallel movements of interest rate curves, and excludes the customer behavior, basis risk, option characteristics of early repayment of bonds. The Bank and its subsidiaries calculate the change in net interest revenue for this year and also monitor the percentage of change in net interest revenue to the projection of net interest revenue for this year.

The Bank and its subsidiaries monthly analyze and monitor interest rate risk positions limits and various interest rate risk management indexes. If any risk management index exceeds limit, the Bank and its subsidiaries will adopt responding measures and report the analysis and monitoring results to the Fund Management Committee, the Risk Management Committee and the Board of Directors.

I. Foreign exchange risk management

Foreign exchange risk refers to the losses caused by the exchange of two different currencies at different times. The Bank and its subsidiaries' foreign exchange risk mainly comes from its derivative instruments business such as spot foreign exchange, forward foreign exchange and foreign exchange options. The foreign exchange trading of the Bank and its subsidiaries are mainly for offsetting customers' positions on the same day; therefore, foreign exchange risk is relatively low.

To control trading-book foreign exchange risk, subsidiaries have set trading limits and stop-loss limits for trading rooms and traders and also set the annual maximum loss limits to control the losses within the tolerable scopes.

J. The Bank and its subsidiaries' foreign exchange risk gaps

UNIT : In NT Thousand Dollars

	December 31, 2016				
	USD	AUD	RMB	EUR	JPY
<b>Assets</b>					
Cash and cash equivalents	\$ 49,703,544	\$ 310,135	\$ 10,445,992	\$ 3,678,163	\$ 12,041,669
Due from the Central Bank and call loans to banks	424,434,194	756,861	13,878,642	1,700,832	22,568,162
Financial assets at fair value through profit or loss	37,811,904	2,240,329	409	9,930	2,252
Receivables	32,920,147	5,151,369	1,303,214	1,010,405	1,840,866
Bills discounted and loans	485,835,591	40,866,161	12,683,762	20,649,860	33,179,147
Available-for-sale financial assets	52,314,756	49,517,023	15,183,326	4,441,860	-
Held-to-maturity financial assets	22,064,690	1,527,971	4,109,819	679,202	276,970
Other assets	970,838	32,161	80,773	61,968	54,255
Total assets	1,106,055,664	100,402,010	57,685,937	32,232,220	69,963,321
<b>Liabilities</b>					
Due to the Central Bank and commercial bank	320,340,353	3,462,822	5,652,241	2,408,881	22,514,259
Borrowed funds	39,974,427	-	-	-	-
Financial liabilities at fair value through profit or loss	10,363,477	13,022	428	6,402	3,223
Payables	13,873,248	242,784	787,605	580,837	1,905,729
Deposits and remittances	776,913,967	29,935,501	82,258,183	28,837,557	29,034,895
Other liabilities	5,923,470	1,225,396	1,387,315	758,040	373,582
Total liabilities	1,167,388,942	34,879,525	90,085,772	32,591,717	53,831,688
On-balance sheet foreign exchange gap	(\$ 61,333,278)	\$ 65,522,485	(\$ 32,399,835)	(\$ 359,497)	\$ 16,131,633
Off-balance sheet commitments	\$ 75,718,179	\$ 1,400,585	\$ 2,278,564	\$ 11,527,929	\$ 3,337,466
NTD exchange rate	32.2060	23.3236	4.6253	33.9612	0.2769

UNIT : In NT Thousand Dollars

	December 31, 2015				
	USD	AUD	RMB	EUR	JPY
<b>Assets</b>					
Cash and cash equivalents	\$ 104,413,297	\$ 407,787	\$ 21,972,350	\$ 2,011,151	\$ 2,261,350
Due from the Central Bank and call loans to banks	395,731,182	466,070	12,389,212	2,730,334	21,399,477
Financial assets at fair value through profit or loss	37,810,831	2,306,919	775	1,139,603	1,009
Receivables	48,740,032	4,108,989	60,892,420	1,811,053	1,888,390
Bills discounted and loans	557,267,013	37,097,367	10,107,113	22,762,021	33,028,533
Available-for-sale financial assets	46,975,580	43,187,174	29,846,677	5,245,284	-
Held-to-maturity financial assets	17,282,670	1,594,793	3,761,025	306,452	546,288
Other assets	15,271,540	9,617,567	14,311,855	(3,911,396)	1,276,504
Total assets	1,223,492,145	98,786,666	153,281,427	32,094,502	60,401,551
<b>Liabilities</b>					
Due to the Central Bank and commercial bank	358,371,553	4,264,077	13,516,750	2,260,385	24,084,825
Borrowed funds	45,459,094	-	-	-	-
Financial liabilities at fair value through profit or loss	20,614,005	27,140	242	1,851	1,063
Payables	16,264,816	163,361	1,106,099	427,713	1,644,420
Current tax liabilities	211,316	42,631	29,845	23,170	145,049
Deposits and remittances	807,812,448	32,311,316	104,223,969	26,485,856	24,790,121
Other liabilities	8,515,625	1,123,716	2,150,030	649,687	416,604
Total liabilities	1,257,248,857	37,932,241	121,026,935	29,848,662	51,082,082
On-balance sheet foreign exchange gap	(\$ 33,756,712)	\$ 60,854,425	\$ 32,254,492	\$ 2,245,840	\$ 9,319,469
Off-balance sheet commitments	\$ 68,973,213	\$ 1,342,322	\$ 2,168,428	\$ 12,234,400	\$ 4,027,884
NTD exchange rate	32.8880	23.9754	4.9959	35.9236	0.2730

K. Risk management for equity securities

Due to needs of proprietary, make market and tactic, etc., the Bank held equity securities within the regulations of the law. That market risk comprises the risk of individual equity security arising from the security's market price changes and the general market risk arising from overall equity securities market price changes.

The investment operating group mainly selects blue chip stocks which have high liquidity and sets the investment price according to fundamentals and market transactions. After the investment has been approved by the investment deliberation committee, the operational personnel purchase the stock within the maximum percentage of the approved price, as the case may be.

Daily trading records, details of investment portfolios and overview of profit or loss shall report to the management and measurement of the extent of the impact of systematic risk on investment portfolios using  $\beta$  value monthly. The Bank and its subsidiaries generally set a stop loss, stop interest, pre-warning and exception handling requirements, and limit control to held individual stock and industry concentration.

L. Sensitivity analysis

Sensitivity analysis of the Bank and its subsidiaries' financial instruments (including trading book and non-trading book):

December 31, 2016

UNIT : In NT Thousand Dollars

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	( \$ 33,095 )	\$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	33,095	-
Interest rate risk	Major increases in interest rates 1BPS	5,912	( 34,424 )
Interest rate risk	Major declines in interest rates 1BPS	( 5,912 )	34,424
Equity securities risk	TAIEX declined by 1%	( 28,860 )	( 51,504 )
Equity securities risk	TAIEX increased by 1%	28,860	51,504

December 31, 2016

UNIT : In US Thousand Dollars

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	( \$ 1,028 )	\$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	1,028	-
Interest rate risk	Major increases in interest rates 1BPS	184	( 1,069 )
Interest rate risk	Major declines in interest rates 1BPS	( 184 )	1,069
Equity securities risk	TAIEX declined by 1%	( 896 )	( 1,599 )
Equity securities risk	TAIEX increased by 1%	896	1,599

December 31, 2015

UNIT : In NT Thousand Dollars

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	( \$ 168,072 )	\$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	168,072	-
Interest rate risk	Major increases in interest rates 1BPS	17,717	( 23,172 )
Interest rate risk	Major declines in interest rates 1BPS	( 17,717 )	23,172
Equity securities risk	TAIEX declined by 1%	( 28,735 )	( 55,601 )
Equity securities risk	TAIEX increased by 1%	28,735	55,601

M. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)

December 31, 2016

UNIT : In NT Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 481,743,022	\$ 853,830,915	\$ 61,943,233	\$ 65,793,060	\$ 1,463,310,230
Interest rate sensitive liabilities	441,612,902	647,580,419	92,376,140	36,414,974	1,217,984,435
Interest rate sensitive gap	\$ 40,130,120	\$ 206,250,496	( \$ 30,432,907 )	\$ 29,378,086	\$ 245,325,795
Net worth					\$ 248,401,446
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					120.14%
Ratio of interest rate sensitivity gap to net worth					98.76%

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)  
December 31, 2016

UNIT : In US Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 14,958,176	\$ 26,511,548	\$ 1,923,345	\$ 2,042,882	\$ 45,435,951
Interest rate sensitive liabilities	13,712,131	20,107,447	2,868,290	1,130,689	37,818,557
Interest rate sensitive gap	\$ 1,246,045	\$ 6,404,101	(\$ 944,945)	\$ 912,193	\$ 7,617,394
Net worth					\$ 7,712,893
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					120.14%
Ratio of interest rate sensitivity gap to net worth					98.76%

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)  
December 31, 2015

UNIT : In NT Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 516,266,779	\$ 828,046,861	\$ 7,364,395	\$ 44,195,492	\$ 1,395,873,527
Interest rate sensitive liabilities	474,574,216	616,401,650	88,037,742	44,684,635	1,223,698,243
Interest rate sensitive gap	\$ 41,692,563	\$ 211,645,211	(\$ 80,673,347)	(\$ 489,143)	\$ 172,175,284
Net worth					\$ 239,592,215
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					114.07%
Ratio of interest rate sensitivity gap to net worth					71.86%

Notes:

1. The above amounts included only New Taiwan dollar amounts by the onshore branches of the Bank (i.e. excluding foreign currency).
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in New Taiwan dollars)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)  
December 31, 2016

UNIT : In US Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 31,753,246	\$ 917,397	\$ 448,358	\$ 347,507	\$ 33,466,508
Interest rate sensitive liabilities	32,214,405	1,506,710	1,201,384	-	34,922,499
Interest rate sensitive gap	(\$ 461,159)	(\$ 589,313)	(\$ 753,026)	\$ 347,507	(\$ 1,455,991)
Net worth					\$ 389,768
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					95.83%
Ratio of interest rate sensitivity gap to net worth					(373.55%)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)  
December 31, 2015

UNIT : In US Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	\$ 32,285,909	\$ 1,802,050	\$ 393,155	\$ 366,323	\$ 34,847,437
Interest rate sensitive liabilities	33,693,738	1,497,285	1,141,957	535,953	36,868,933
Interest rate sensitive gap	(\$ 1,407,829)	\$ 304,765	(\$ 748,802)	(\$ 169,630)	(\$ 2,021,496)
Net worth					\$ 544,916
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					94.52%
Ratio of interest rate sensitivity gap to net worth					(370.97%)

Note:

1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch. Contingent assets and liabilities are excluded.
2. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities.
3. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in US dollars).

(6) Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have engaged in financial instrument transactions that apply the offsetting requirements in Paragraph 42 of IAS 32 as endorsed by the FSC. Financial assets and financial liabilities related to these transactions are reported at net amount on the balance sheet.

The Bank and its subsidiaries have also engaged in offsetting terms that do not conform to the IFRSs. However, they have entered into enforceable master netting arrangements or similar agreements with counterparties. For example: global master repurchase agreements or similar repurchase or reverse repurchase agreements. When the above-mentioned enforceable master netting arrangements or similar agreements are elected by both parties to be settled by net amount, settlements may be made by using the net amount after the offsetting of financial assets and financial liabilities. Conversely if no such arrangements are made, settlements are made using the gross amount. However, upon the event of a default of a party, the counterparty may choose settle by net amount.

The following table lists information related to the above-mentioned offsetting of financial assets and financial liabilities:

December 31, 2016

Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

UNIT : In NT Thousand Dollars

Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 3,783,124	\$ -	\$ 3,783,124	\$ 1,181,638	\$ 866,726	\$ 1,734,760

Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 3,217,540	\$ -	\$ 3,217,540	\$ 1,140,092	\$ 9,250	\$ 2,068,198

December 31, 2016

Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

UNIT : In US Thousand Dollars

Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 117,466	\$ -	\$ 117,466	\$ 36,690	\$ 26,912	\$ 53,864

Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 99,905	\$ -	\$ 99,905	\$ 35,400	\$ 287	\$ 64,218

December 31, 2015

Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

UNIT : In NT Thousand Dollars

Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 4,857,594	\$ -	\$ 4,857,594	\$ 616,636	\$ 1,441,783	\$ 2,799,176

Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative instruments	\$ 4,757,866	\$ -	\$ 4,757,866	\$ 616,636	\$ 11,634	\$ 4,129,596

(Note) Including net settlement master netting arrangements and non-cash collaterals.

## 9. CAPITAL MANAGEMENT

### (1) Objective of capital management

- A. The Bank and its subsidiaries' qualifying self-owned capital should meet the regulatory requirements and meet the minimum regulated capital adequacy ratio. This is the basic objective of capital management of the Bank and its subsidiaries. The calculation and provision of qualifying self-owned capital and regulated capital shall follow the regulations of the competent authority.
- B. In order to have adequate capital to take various risks, the Bank and its subsidiaries shall assess the required capital with consideration of the risk portfolio it faces and the risk characteristics, and manages risk through capital allocation to realize optimum utilization of capital allocation.

### (2) Capital management procedures

- A. Following the "Regulations Governing the Capital Adequacy Ratio of Banks" of the Financial Supervisory Commission, the Bank calculates capital adequacy ratio on a consolidated basis and reports this information regularly.
- B. The calculation of capital adequacy ratio of subsidiaries shall follow the regulations of regulatory authorities; if without regulations, capital adequacy ratio is computed as net of qualifying self-own capital divided by regulated capital.

### (3) Capital adequacy ratio

Capital adequacy shown in the following table was calculated in accordance with "Regulations Governing the Capital Adequacy Ratio of Banks" effective on December 31, 2016 and 2015.

UNIT : In NT Thousand Dollars, %

Items		Annual	December 31, 2016	December 31, 2015	
Self-owned capital	Capital of Common equity		\$ 249,538,884	\$ 244,583,282	
	Other Tier 1 Capital		-	-	
	Tier 2 Capital, net		37,575,805	44,734,116	
	Self-owned capital, net		287,114,689	289,317,398	
Total risk-weighted assets (Note 1)	Credit risk	Standardized Approach	1,851,031,943	2,033,605,160	
		Internal Ratings-Based Approach	-	-	
		Asset securitization	752,163	1,375,313	
	Operation risk	Basic Indicator Approach	93,518,150	89,086,413	
		Standardized Approach / Alternative Standardized Approach	-	-	
		Advanced Measurement Approaches	-	-	
	Market risk	Standardized Approach	35,868,088	46,141,363	
		Internal Models Approach	-	-	
	Total risk-weighted assets			1,981,170,344	2,170,208,249
	Capital adequacy ratio (Note 2)			14.49%	13.33%
Total risk assets based Capital of Common equity, net Ratio			12.60%	11.27%	
Total risk assets based Tier 1 Capital, net Ratio			12.60%	11.27%	
Leverage ratio			7.49%	7.02%	

Note 1: The self-owned capital, risk-weighted assets and exposures amount in the table above should be filled in accordance with "Regulations Governing the Capital Adequacy Ratio of Banks" and "calculation method and table of self-owned capital and risk-weighted assets".

Note 2: Current and prior year's capital adequacy ratio should be disclosed in the annual reports. In addition to current and prior year's capital adequacy, capital adequacy ratio at the end of prior year should be disclosed in the semi-annual reports.

Note 3: The relevant formulas are as follows:

- Self-owned capital = Tier 1 Capital of Common equity, net + Other Tier 1 Capital, net + Tier 2 Capital, net
- Total risk-weighted assets = credit risk-weighted assets + (operation risk + market risk) \* 12.5
- Capital adequacy ratio = Self-owned capital / Total risk-weighted assets
- Total risk assets based Tier 1 Capital of Common equity, net Ratio = Tier 1 Capital of Common equity, net / Total risk-weighted assets
- Total risk assets based Tier 1 Capital, net Ratio = (Tier 1 Capital of Common equity, net + Other Tier 1 Capital, net) / Total risk-weighted assets
- Gearing ratio = Tier 1 capital / exposures amount

Note 4: For 1st quarter and 3rd quarter financial reports, the table of capital adequacy ratio is not required to be disclosed.

## 10. OPERATING SEGMENTS INFORMATION

### (1) General information

The Bank and its subsidiaries use reported information to the Chief Operating Decision-Maker (CODM) to identify segments and geographic information. The Bank and its subsidiaries mainly focus on the businesses in Asia and North America. The disclosed operating segment by the Bank and its subsidiaries is stipulated in Article 3 of the Banking Law, and the generated income is the main source of income.

### (2) Information of segment profit or loss, assets and liabilities

The Bank and its subsidiaries' management mainly focuses on the operating results of the whole bank, which is consistent with that of the consolidated statements of comprehensive income.



(3) Information of major customers

The Bank and its subsidiaries' source of income is not concentrated on transactions with a single customer or single trading.

(4) Information by products and services

All operating segments' operating results of the Bank and its subsidiaries mainly come from interest income from external clients and is measured on a consistent basis compared with the statement of comprehensive income. The segmental income also consist of internal profit and loss appropriated by the terms agreed amongst segments other than external revenue. Please refer to the information by geography for relevant components of income balances.

(5) Financial Information By Geographic Area

For the year ended December 31, 2016

UNIT: In NT Thousand Dollars

	Domestic Department	Asia (Note)	North America	Other Overseas Operating Department	Adjustment and Write-off	Total
Revenue from customers outside the Bank	\$ 41,257,735	\$ 5,447,673	(\$ 2,735,172)	\$ 1,971,192	(\$ 306,700)	\$ 45,634,728
Revenue from departments within the Bank	880,321	(362,773)	(66,100)	(440,463)	(10,985)	-
Total revenue	<u>\$ 42,138,056</u>	<u>\$ 5,084,900</u>	<u>(\$ 2,801,272)</u>	<u>\$ 1,530,729</u>	<u>(\$ 317,685)</u>	<u>\$ 45,634,728</u>
Profit or loss	<u>\$ 23,659,414</u>	<u>\$ 3,658,798</u>	<u>(\$ 4,065,506)</u>	<u>\$ 95,076</u>	<u>(\$ 232,414)</u>	<u>\$ 23,115,368</u>
Assets attributable to specific departments	<u>\$ 2,381,099,632</u>	<u>\$ 234,193,015</u>	<u>\$ 294,029,798</u>	<u>\$ 74,456,329</u>	<u>(\$ 9,327,183)</u>	<u>\$ 2,974,451,591</u>

For the year ended December 31, 2016

UNIT: In US Thousand Dollars

	Domestic Department	Asia (Note)	North America	Other Overseas Operating Department	Adjustment and Write-off	Total
Revenue from customers outside the Bank	\$ 1,281,057	\$ 169,151	(\$ 84,927)	\$ 61,206	(\$ 9,523)	\$ 1,416,964
Revenue from departments within the Bank	27,334	(11,264)	(2,052)	(13,677)	(341)	-
Total revenue	<u>\$ 1,308,391</u>	<u>\$ 157,887</u>	<u>(\$ 86,979)</u>	<u>\$ 47,529</u>	<u>(\$ 9,864)</u>	<u>\$ 1,416,964</u>
Profit or loss	<u>\$ 734,628</u>	<u>\$ 113,606</u>	<u>(\$ 126,234)</u>	<u>\$ 2,952</u>	<u>(\$ 7,217)</u>	<u>\$ 717,735</u>
Assets attributable to specific departments	<u>\$ 73,933,417</u>	<u>\$ 7,271,720</u>	<u>\$ 9,129,659</u>	<u>\$ 2,311,878</u>	<u>(\$ 289,610)</u>	<u>\$ 92,357,064</u>

For the year ended December 31, 2015

UNIT: In NT Thousand Dollars

	Domestic Department	Asia (Note)	North America	Other Overseas Operating Department	Adjustment and Write-off	Total
Revenue from customers outside the Bank	\$ 41,097,238	\$ 4,962,362	\$ 2,583,711	\$ 1,863,005	(\$ 265,094)	\$ 50,241,222
Revenue from departments within the Bank	840,860	(421,904)	(15,676)	(403,634)	354	-
Total revenue	<u>\$ 41,938,098</u>	<u>\$ 4,540,458</u>	<u>\$ 2,568,035</u>	<u>\$ 1,459,371</u>	<u>(\$ 264,740)</u>	<u>\$ 50,241,222</u>
Profit or loss	<u>\$ 24,842,947</u>	<u>\$ 3,286,027</u>	<u>\$ 1,716,326</u>	<u>\$ 867,943</u>	<u>(\$ 393,034)</u>	<u>\$ 30,320,209</u>
Assets attributable to specific departments	<u>\$ 2,424,108,458</u>	<u>\$ 236,372,025</u>	<u>\$ 358,103,619</u>	<u>\$ 75,532,084</u>	<u>(\$ 5,348,463)</u>	<u>\$ 3,088,767,723</u>

Note: amounts in Asia do not include those originating from the Republic of China.

## 11. RELATED PARTY TRANSACTIONS

### (1) Parent and ultimate controlling party

The Bank and its subsidiaries are controlled by Mega Financial Holding Co., Ltd, which owns 100% of the Bank's shares. The ultimate controlling party of the Bank and its subsidiaries is Mega Financial Holding Co., Ltd.

### (2) Names of the related parties and their relationship with the Bank

Names of related parties	Short name of related parties	Relationship with the Bank
Mega Bills Finance Co., Ltd.	Mega Bills	Jointly controlled by Mega Financial Holdings
Mega Securities Co., Ltd.	Mega Securities	Jointly controlled by Mega Financial Holdings
Mega Investment Trust Co., Ltd.	Mega Investment Trust	Jointly controlled by Mega Financial Holdings
Chung Kuo Insurance Co., Ltd.	Chung Kuo Insurance	Jointly controlled by Mega Financial Holdings
Mega Asset Management Co., Ltd.	Mega Asset	Jointly controlled by Mega Financial Holdings
Mega CTB Venture Capital Co., Ltd.	Mega Venture	Jointly controlled by Mega Financial Holdings
Mega Life Insurance Agency Co., Ltd.	Mega Life Insurance Agency	Jointly controlled by Mega Financial Holdings
Mega International Investment Service Corp.	Mega International Investment Service	Jointly controlled by Mega Financial Holdings
Mega Futures Co., Ltd.	Mega Futures	Jointly controlled by Mega Financial Holdings
Chungwha Post Corporation Limited	Chungwha Post	Director of Mega Financial Holdings
Bank of Taiwan Corp.	Bank of Taiwan	Director of Mega Financial Holdings
Yung-Shing Industries Co.	Yung-Shing Industries	Subsidiary of the Bank
China Products Trading Company	China Products	Subsidiary of the Bank
Mega Management Consulting Co., Ltd.	Mega Management Consulting	Subsidiary of the Bank
Cathay Investment & Development Corporation (Bahamas)	Cathay Investment (Bahamas)	Subsidiary of the Bank
Cathay Investment & Warehousing Co., S.A.	Cathay Investment & Warehousing (Panama)	Subsidiary of the Bank
Win Card Co., Ltd.	Win Card	Indirect subsidiary of the Bank
ICBC Assets Management & Consulting Co., Ltd.	ICBC Consulting	Indirect subsidiary of the Bank
Mega 1 Venture Capital Co., Ltd.	Mega 1 Venture	Equity investees
United Venture Capital Corp.	United Venture	Equity investees (Note1)
Everstrong Iron & Steel Foundry & Mfg Corp.	Everstrong Iron Steel	Equity investees
IP Fund Seven Ltd.	IP Fundseven	Equity investees (Note2)
China Real Estate Management Co., Ltd.	China Real Estate	Equity investees
Taiwan Finance Co., Ltd.	Taiwan Finance	Equity investees
An Feng Enterprise Co., Ltd.	An Fang	Equity investees
Ramlett Finance Holdings Inc.	Ramlett	Equity investees
Mega Growth Venture Capital Co., Ltd.	Mega Growth Venture Capital	Equity investees
Universal Venture Capital Investment Corporation	Universal Venture Capital	Equity investees
Others		Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager

Note 1: The Company was dissolved in 2013 and completed its liquidation on October 5, 2015.

Note 2: The Company was dissolved in 2015 and completed its liquidation on August 18, 2016.

### (3) Major transactions and balances with related parties

#### A. Due from and due to banks

	For the year ended December 31, 2016			
	Balance as of December 31	Highest Outstanding Balance	Interest Rate (%)	Total Interest Income (Expense)
(Expressed in NT Thousand Dollars)				
<u>Due from banks</u>				
Fellow subsidiary:				
Mega Bills	\$ -	\$ 6,392,878	0.28%-1.40% (Note)	\$ 14,987
Other related parties:				
Bank of Taiwan	9,330,096	27,831,099	-0.18%-14.00%	448
<u>Due to banks</u>				
Other related parties:				
China Post	\$ 2,818,812	\$ 2,918,323	0.01%-1.30%	(\$ 33,038 )
Bank of Taiwan	199,789	9,348,133	0.29%-12.00%	( 247 )

	For the year ended December 31, 2016			
	Balance as of	Highest	Interest Rate	Total Interest
	December 31	Outstanding	(%)	Income (Expense)
		(Expressed in US Thousand Dollars)		
<u>Due from banks</u>				
Fellow subsidiary:				
Mega Bills	\$ -	\$ 198,500	0.28%-1.40% (Note)	\$ 465
Other related parties:				
Bank of Taiwan	289,701	864,159	-0.18%-14.00%	14
<u>Due to banks</u>				
Other related parties:				
China Post	\$ 87,525	\$ 90,614	0.01%-1.30%	( \$ 1,026 )
Bank of Taiwan	6,203	290,261	0.29%-12.00%	( 8 )

Note: The range of NTD interest rate is 0.28% ~ 0.50% and the range of foreign currency interest rate is 0.70% ~ 1.40%.

	For the year ended December 31, 2015			
	Balance as of	Highest	Interest Rate	Total Interest
	December 31	Outstanding	(%)	Income (Expense)
		(Expressed in NT Thousand Dollars)		
<u>Due from banks</u>				
Fellow subsidiary:				
Mega Bills	\$ 2,765,776	\$ 3,000,000	0.45%-5.35%	\$ 1,909
Other related parties:				
Bank of Taiwan	11,296,147	19,942,773	0.01%-5.20%	715
<u>Due to banks</u>				
Other related parties:				
China Post	\$ 2,804,643	\$ 4,223,147	1.20%-1.52%	( \$ 39,921 )
Bank of Taiwan	3,381,407	28,257,238	0.10%-9.00%	( 254 )

#### B. Loans and deposits

	Item	Counterparty	December 31, 2016			Total Interest Income (Expense)	% of Total	Interest Rate (%)
			NT\$	US\$	% of Total			
			For the year ended December 31, 2016	Deposits	All related parties			
	Loans	All related parties	105,809	3,285	0.01%	2,738	0.01%	0.01%~3.63%
	Item	Counterparty	December 31, 2015			Total Interest Income (Expense)	% of Total	Interest Rate (%)
			NT\$	US\$	% of Total			
			For the year ended December 31, 2015	Deposits	All related parties			
	Loans	All related parties	-	178,191	0.01%	3,818	0.01%	1.00%~5.00%

The interest rates shown above are similar, or approximate, to those offered to third parties. But the interest rates for savings deposits of Bank managers within the prescribed amounts are the same as for savings deposits of employees.

In compliance with the Articles 32 and 33 of Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party are fully secured, and the terms of credits extended to related parties are similar to those for third parties.

The Bank presents its transactions or account balances with related parties, in the aggregate, except for those which the amount represents over 10% of the account balance.

C. Lease agreements

Lessor

Related Party	Lease Period	Lease Receipt Method	For the year ended December 31, 2016	
			Rental Revenue (NT\$)	Rental Revenue (US\$)
The parent:				
Mega Financial Holdings	2014.08-2019.11	Monthly	\$ 223	\$ 7
Fellow subsidiary:				
Mega Securities	2012.11-2021.02	Monthly	20,458	635
Mega Bills	2016.01-2019.11	Monthly	32,579	1,012
Chung Kuo Insurance	2015.05-2019.07	Quarterly/ Semi-Annually	2,018	63
Mega Asset	2016-01-2018.12	Monthly	7,060	219
Mega Investment Trust	2016-01-2018.12	Monthly	12,139	377
Mega Life Insurance Agency	2014-07-2017.06	Monthly	1,119	35
The subsidiary:				
Yung-Shing Industries	2014.07-2018.09	Quarterly/Annually	2,861	89
Mega Management Consulting	2016.01-2018.12	Monthly	1,561	48
The indirect subsidiary:				
Win Card	2014.06-2019.05	Quarterly	4,652	144
ICBC Consulting	2015.08-2018.07	Monthly	178	6

Related Party	Lease Period	Lease Receipt Method	For the year ended December 31, 2015	
			Rental Revenue (NT\$)	
The parent:				
Mega Financial Holdings	2014.08-2018.07	Monthly	\$ 206	
Fellow subsidiary:				
Mega Securities	2011.02-2018.04	Monthly	17,813	
Mega Bills	2013.01-2015.12	Monthly	35,267	
Chung Kuo Insurance	2011.08-2018.04	Quarterly/ Semi-Annually	2,119	
Mega Asset	2014.01-2015.12	Monthly	5,901	
Mega Investment Trust	2014.01-2015.12	Monthly	10,518	
Mega Life Insurance Agency	2014.07-2017.06	Monthly	1,321	
The subsidiary:				
Yung-Shing Industries	2014.07-2018.09	Quarterly/Annually	2,861	
Mega Management Consulting	2014.01-2015.12	Monthly/Annually	1,339	
The indirect subsidiary:				
Win Card	2014.06-2019.05	Quarterly	4,637	
ICBC Consulting	2014.04-2017.03	Monthly	134	

Lessee

Related Party	Lease Period	Lease Payment Method	For the year ended December 31, 2016	
			Rental Expense (NT\$)	Rental Expense (US\$)
The parent:				
Mega Financial Holdings	2016.11-2018.12	Monthly	\$ 136	\$ 4
Fellow subsidiary:				
Mega Securities	Note	Note	29,842	927
Mega Bills	2016.01-2018.12	Monthly	79,947	2,482
Chung Kuo Insurance	2006.12-2017.07	Monthly	22,283	692
Subsidiary:				
Yung-Shing Industries	2014.12-2044.11	Monthly	21,600	671
China Products	2015.06-2018.05	Monthly	1,003	31

Related Party	Lease Period	Lease Payment Method	For the year ended December 31, 2015	
			Rental Expense (NT\$)	
Fellow subsidiary:				
Mega Securities	Note	Note	\$ 30,307	
Mega Bills	2013.01-2015.12	Monthly	84,246	
Chung Kuo Insurance	2006.12-2017.07	Monthly/ Quarterly/Annually	22,197	
Subsidiary:				
Yung-Shing Industries	2014.12-2044.11	Monthly	20,571	
China Products	2012.06-2018.05	Monthly	1,003	

Note: The Bank sets up offices for collection / payment of securities trading for customers in all operating bases of Mega Securities. There are neither formal contracts nor actual lease terms. The rental fees are paid according to a certain percentage of deposit balance of each operating base.

D. Bills and bonds under resale agreements

		For the year ended December 31, 2016		
		NT\$		
	Amount	Ending balance	Interest revenue	
Fellow subsidiary:				
Mega Bills	\$ 141,010,835	\$ -	\$ 9,860	
Mega Securities	116,240,184	1,400,083	8,958	
	<u>\$ 257,251,019</u>	<u>\$ 1,400,083</u>	<u>\$ 18,818</u>	

		For the year ended December 31, 2016		
		US\$		
	Amount	Ending balance	Interest revenue	
Fellow subsidiary:				
Mega Bills	\$ 4,378,403	\$ -	\$ 306	
Mega Securities	3,609,271	43,473	278	
	<u>\$ 7,987,674</u>	<u>\$ 43,473</u>	<u>\$ 584</u>	

		For the year ended December 31, 2015		
		NT\$		
	Amount	Ending balance	Interest revenue	
Fellow subsidiary:				
Mega Bills	\$ 80,179,796	\$ -	\$ 1,556	
Mega Securities	216,410,254	3,356,658	21,957	
	<u>\$ 296,590,050</u>	<u>\$ 3,356,658</u>	<u>\$ 23,513</u>	

E. Current tax liabilities

		December 31, 2016		December 31, 2015
		NT\$	US\$	NT\$
	Amount	Amount	Amount	Amount
Parent company:				
Mega Financial Holdings	\$ 2,433,546	\$ 75,562	\$ 2,084,962	

The above-mentioned payables to the parent company are net payables due to the Bank electing to jointly file profit-seeking enterprise income tax returns with its parent company as of 2003.

F. Service fees revenues

		For the year ended December 31, 2016		For the year ended December 31, 2015
		NT\$	US\$	NT\$
Fellow subsidiary:				
Mega Life Insurance Agency (Note 1)	\$ 978,170	\$ 30,372	\$ 772,244	
Mega Investment Trust (Note 2)	28,520	886	32,402	
Chung Kuo Insurance (Note 1)	9,534	296	10,545	
	<u>\$ 1,016,224</u>	<u>\$ 31,554</u>	<u>\$ 815,191</u>	

Note 1: The above amount represents service fee revenues earned from acting as an agent for Mega Life Insurance Agency and Chung Kuo Insurance.

Note 2: The above amount represents service fee of sale funds revenues earned from Mega Investment Trust.

G. Insurance expense

		For the year ended December 31, 2016		For the year ended December 31, 2015
		NT\$	US\$	NT\$
Fellow subsidiary:				
Chung Kuo Insurance	\$ 39,329	\$ 1,221	\$ 55,871	

H. The Bank's processes of printing, packaging documents and labor outsourcing have been outsourced to Yung-Shing Industries Co. Under this arrangement, the Bank paid operating expenses and labor outsourcing of NT\$119,930 thousand and NT\$120,475 thousand for the years ended December 31, 2016 and 2015, respectively.

I. As of 2001, a portion of the Bank's credit card business and car loan collection business have been commissioned to its second-tier subsidiary, Win Card Co., Ltd, for operation. For the years ended December 31, 2016 and 2015, operating expenses payable in accordance with agreements were NT\$166,884 thousand and NT\$167,405 thousand, respectively.

J. Loans

December 31, 2016

(Unit: In NT Thousand dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	11	\$ 11,383	\$ 3,933	V		None	None
Home mortgage loans	77	564,202	509,838	V		Real estate	None
Other loans	2	95,211	55,716	V		Real estate	None

December 31, 2016

(Unit: In US Thousand dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	11	\$ 353	\$ 122	V		None	None
Home mortgage loans	77	17,519	15,831	V		Real estate	None
Other loans	2	2,956	1,730	V		Real estate	None

December 31, 2015

(Unit: In NT Thousand dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	18	\$ 10,295	\$ 9,334	V		None	None
Home mortgage loans	74	522,944	479,835	V		Real estate	None
Other loans	3	1,938,636	56,896	V		Real estate	None

K. Financial guarantees for related parties:

(Unit: In NT Thousand dollars)

Date	Names of related party	Highest balance	Ending balance	Provision for guarantee reserve	Rate	Collateral
December 31, 2016	Chung Kuo Insurance	\$ 9,626	\$ 9,603	\$ 128	1%	The bank's deposits

(Unit: In US Thousand dollars)

Date	Names of related party	Highest balance	Ending balance	Provision for guarantee reserve	Rate	Collateral
December 31, 2016	Chung Kuo Insurance	\$ 299	\$ 298	\$ 4	1%	The bank's deposits

(Unit: In NT Thousand dollars)

Date	Names of related party	Highest balance	Ending balance	Provision for guarantee reserve	Rate	Collateral
December 31, 2015	Chung Kuo Insurance	\$ 9,827	\$ 9,806	\$ 111	1%	The bank's deposits

L. Information on remunerations to the Bank's directors, supervisors, general managers and vice general manager:

	For the year ended December 31		
	2016		2015
	NT\$	US\$	NT\$
Salaries and other short-term employee benefits	\$ 78,102	\$ 2,425	\$ 80,744
Post-employment benefits	1,975	61	2,565
Total	\$ 80,077	\$ 2,486	\$ 83,309

12. PLEDGED ASSETS

Please refer to Note (6) and (7) for details of the assets pledged as collateral as of December 31, 2016 and 2015.

### 13. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

As of December 31, 2016 and 2015, the Bank and its subsidiaries had the following commitments and contingent liabilities not reflected in the above mentioned financial statements:

	December 31, 2016		December 31, 2015	
	NT\$	US\$	NT\$	US\$
Irrevocable loan commitments	\$ 115,408,871	\$ 3,583,459	\$ 107,490,342	
Securities sold under repurchase agreement	444,888	13,814	548,152	
Securities purchased under resale agreement	4,256,613	132,168	9,437,084	
Credit card line commitments	56,378,442	1,750,557	58,618,656	
Guarantees issued	195,512,459	6,070,684	217,349,493	
Contra guarantees	60,644	1,883	841	
Letters of credit	61,515,435	1,910,061	55,498,669	
Customers' securities under custody	193,861,943	6,019,436	208,886,695	
Properties under custody	3,323,676	103,201	3,458,696	
Guarantee effects	136,273,654	4,231,313	142,259,758	
Collections for customers	102,094,722	3,170,053	106,021,245	
Agency loans payable	977,405	30,349	1,295,073	
Travelers' checks consigned-in	1,525,830	47,377	1,877,590	
Gold coins consigned-in	433	13	449	
Goods and tickets consignments-in	2,459	76	2,490	
Agent for government bonds	144,109,400	4,474,613	159,934,200	
Short-dated securities under custody	89,610,128	2,782,405	105,969,903	
Trust liability	522,980,128	16,238,593	534,133,051	
Certified notes paid	6,256,579	194,267	6,528,240	
Risk tolerance amount	322,060	10,000	440,243	

### 14. SIGNIFICANT DISASTER LOSS

None.

### 15. SIGNIFICANT SUBSEQUENT EVENT

None.

### 16. OTHERS

#### (1) Information for financial assets transfers and liabilities extinguishing

None.

#### (2) Significant adjustment in the organization and significant changes in the management system

For reorganization of the bank, the structure is as follows:

##### A. Strengthen the Board of Directors:

- (a) Establish a conference which is responsible for the Board of Directors.
- (b) The risk management tasks which were reviewed by "Asset & Liability and Risk Management Committee" had reorganized as "Risk Management Committee" and held by the Chairperson.
- (c) "Auditing Office, Board of Directors" was reorganized as "Auditing Department".

##### B. Reorganization of headquarters

- (a) Reorganize "Planning Department": established under the President.
- (b) Establish "Anti-Money Laundering Center": monitored by Chief Compliance Officer.
- (c) Establish "Overseas Branches Administration Department": monitored by Senior Executive Vice President.
- (d) Establish "Business Administration Department": monitored by Senior Executive Vice President.
- (e) Upgrade Electronic Financial Extension Center to "Digital Banking Department".
- (f) Dissolve "Financial Risk Management Center".
- (g) Resume "Overdue Loan & Control Department".

#### (3) Significant impact arising from changes in government laws and regulations

None.

#### (4) Information for Company's share held by subsidiaries

None.

#### (5) Information for private placement securities

None.

#### (6) Information for discontinued operations

None.

(7) Major operating assets or liabilities transferred from (or to) other financial institutions

None.

(8) Profitability of the Bank and its subsidiaries

Units : %

Items	December 31, 2016		December 31, 2015
	Before tax	After tax	
Return on total assets (%)	0.76	0.63	1.00
			0.85
Return on stockholders' equity (%)	9.05	7.44	12.85
			10.89
Net profit margin ratio (%)	41.66		51.17

Note 1: Return on total assets = Income before (after) income tax/average total assets.

Note 2: Return on stockholders' equity = Income before (after) income tax / average stockholders' equity.

Note 3: Net profit margin ratio = Income after income tax / total operating income.

Note 4: The term "Income before (after) income tax" represents net income from January 1 to the balance sheet date of the reporting period.

(9) In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet, trust income statement and trust property list are as follows:

A. Trust Balance Sheet

(In NT Thousand Dollars)

<u>Trust Balance Sheet</u>		<u>Trust Balance Sheet</u>	
<u>December 31, 2016</u>		<u>December 31, 2016</u>	
<u>Trust assets</u>		<u>Trust liabilities</u>	
Bank deposits	\$ 20,182,915	Capital borrowed	\$ 4,500,525
Receivables	5,642	Payables	15,159
Bonds	15,807,444	Account collected in advance	34,618
Stocks	46,703,729	Tax payable	30,657
Mutual funds	126,533,444	Accounts withholding	957
Structured products	28,563,600	Customers' securities under custody	158,100,512
Properties, net	19,788	Other liabilities	1,520,923
Real estate		Trust capital	353,195,595
Land	100,977,308	Accumulated profit or loss for reserves	
Buildings and Structures, net	10,692,335	Net income for current period	2,130,189
Construction in Process	13,153,605	Accumulated profit	3,450,993
Customers' securities under custody	158,100,512		
Other assets	2,239,806		
Total trust assets	<u>\$ 522,980,128</u>		<u>\$ 522,980,128</u>

(In US Thousand Dollars)

<u>Trust Balance Sheet</u>		<u>Trust Balance Sheet</u>	
<u>December 31, 2016</u>		<u>December 31, 2016</u>	
<u>Trust assets</u>		<u>Trust liabilities</u>	
Bank deposits	\$ 626,682	Capital borrowed	\$ 139,742
Receivables	175	Payables	470
Bonds	490,823	Account collected in advance	1,075
Stocks	1,450,156	Tax payable	952
Mutual funds	3,928,878	Accounts withholding	30
Structured products	886,903	Customers' securities under custody	4,909,039
Properties, net	615	Other liabilities	47,225
Real estate		Trust capital	10,966,764
Land	3,135,357	Accumulated profit or loss for reserves	
Buildings and Structures, net	331,998	Net income for current period	66,142
Construction in Process	408,421	Accumulated profit	107,154
Customers' securities under custody	4,909,039		
Other assets	69,546		
Total trust assets	<u>\$ 16,238,593</u>		<u>\$ 16,238,593</u>

(In NT Thousand Dollars)

<u>Trust Balance Sheet</u>		<u>Trust Balance Sheet</u>	
<u>December 31, 2015</u>		<u>December 31, 2015</u>	
<u>Trust assets</u>		<u>Trust liabilities</u>	
Bank deposits	\$ 24,816,673	Capital borrowed	\$ 4,500,526
Receivables	2,858	Payables	15,729
Bonds	11,711,475	Account collected in advance	40,648
Stocks	45,570,358	Tax payable	30,769
Mutual funds	130,151,624	Accounts withholding	973
Structured products	27,308,854	Customers' securities under custody	171,075,599
Properties, net	15,601	Other liabilities	1,342,791
Real estate		Trust capital	350,994,177
Land	101,718,220	Accumulated profit or loss for reserves	
Buildings and Structures, net	9,937,494	Net income for current period	4,710,469
Construction in Process	8,175,180	Accumulated profit	1,421,370
Customers' securities under custody	171,075,599		
Other assets	3,649,115		
Total trust assets	<u>\$ 534,133,051</u>		<u>\$ 534,133,051</u>



B. Trust Income Statement

	For the years ended December 31,		
	2016		2015
	NT\$	US\$	NT\$
<u>Trust income:</u>			
Interest income	\$ 170,246	\$ 5,286	\$ 97,789
Rental income	1,130,859	35,113	1,159,792
Dividend income	1,147,096	35,617	1,645,804
Realized capital gain-Stock	424,325	13,176	306,383
Realized capital gain-Funds	2,659	83	2,322
Gain on disposal of property	-	-	2,199,415
Other income	38,401	1,192	41,934
Total trust income	<u>2,913,586</u>	<u>90,467</u>	<u>5,453,439</u>
<u>Trust expenses:</u>			
Management expenses	( 86,803 )	( 2,695 )	( 82,926 )
Supervisory fee	-	-	( 450 )
Repairing expenses	( 50,438 )	( 1,566 )	( 50,127 )
Insurance	( 13,053 )	( 405 )	( 13,266 )
Depreciation expense	( 1,502 )	( 47 )	( 1,281 )
Bad debts expense	-	-	( 234 )
Land and housing tax	( 142,533 )	( 4,426 )	( 121,008 )
Taxes	-	-	( 15,543 )
Interest expense	( 78,725 )	( 2,445 )	( 84,177 )
Service Charge Abstract	( 137,330 )	( 4,264 )	( 111,652 )
Accountant fees	( 1,452 )	( 45 )	( 1,696 )
Lawyer fees	( 56 )	( 2 )	( 558 )
Realized capital loss-Stock	( 179,934 )	( 5,587 )	( 162,565 )
Realized capital loss-Funds	( 1 )	-	( 5 )
Losses on Disposal of Property	-	-	( 514 )
Other expenses	( 91,573 )	( 2,843 )	( 96,969 )
Total trust expense	<u>( 783,400 )</u>	<u>( 24,325 )</u>	<u>( 742,971 )</u>
Net income before income tax (Net investment income)	2,130,186	66,142	4,710,468
Income tax expense	-	-	-
Net income after income tax(note)	<u>\$ 2,130,186</u>	<u>\$ 66,142</u>	<u>\$ 4,710,468</u>

C. Trust Property List

Trust Property List

	December 31, 2016		December 31, 2015
	NT\$	US\$	NT\$
Bank deposits	\$ 20,182,915	\$ 626,682	\$ 24,816,673
Bonds	15,807,444	490,823	11,711,475
Stock	46,703,729	1,450,156	45,570,358
Mutual funds	126,533,444	3,928,878	130,151,624
Structured products	28,563,600	886,903	27,308,854
Properties, net	19,788	615	15,601
Real estate			
Land	100,977,308	3,135,357	101,718,220
Buildings and structures, net	10,692,335	331,998	9,937,494
Construction in Process	13,153,605	408,421	8,175,180
Customers' securities under custody	158,100,512	4,909,039	171,075,599
Other assets	2,239,806	69,546	3,649,115
Total	<u>\$ 522,974,486</u>	<u>\$ 16,238,418</u>	<u>\$ 534,130,193</u>

Note: The amount of designated investment trust on foreign equity of OBU branch is NT\$36,030,159 thousand and NT\$33,890,298 thousand as of December 31, 2016 and 2015, respectively.

(10) Information for cross-sales between the Bank and its subsidiaries and subsidiaries

A. Transactions between the Bank and its subsidiaries: Please refer to Note 11.

B. Joint promotion of businesses:

In order to create synergies within the group and provide customers financial services in all aspects, the Bank has continuously established other financial consulting service centers (including banking services, securities trading services, and insurance services) in its subsidiaries and simultaneously promoted service business in banking, securities and insurances areas.

C. Sharing of information or operating facilities or premises

Under the Financial Holding Company Act, Computer Process of Personal Data Protection Law, and the related regulations stipulated by MOF, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the group or exchanged between the subsidiaries for the purpose of cross selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are restricted to use the information for the joint promotion purposes only. In addition, the Bank is required to disclose its "Measures for Protection of Customers' Information" in its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

## 17. SUPPLEMENTARY DISCLOSURES

(1) Related information on material transaction items of the Bank and its subsidiaries:

A. Information regarding stock of short-term equity investment for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid-in capital:

Investor	Marketable securities	General ledger account	Counterparty	Relationship with the Bank	January 1, 2016		Addition		Disposal		December 31, 2016		
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Gain (Loss) on disposal	Number of shares (in thousands)	Amount
The Bank	Taiwan Top 50 Tracker Fund	Financial assets at fair value through profit or loss-net	-	-	3,750	\$ 239,007	12,125	\$ 781,881	12,195	\$ 785,788	15,399	\$ 250,499	
The Bank	FCFC	Financial assets at fair value through profit or loss-net	-	-	160	11,467	3,792	324,869	2,742	221,364	1,194	116,166	
The Bank	TSMC	Financial assets at fair value through profit or loss-net	-	-	6,208	833,259	7,764	1,236,027	11,202	1,816,606	194,988	447,668	
The Bank	Far Eas Tone	Financial assets at fair value through profit or loss-net	-	-	750	52,381	4,111	295,979	4,861	356,887	8,527	-	
The Bank	Fubon Financial Holding Co., Ltd.	Financial assets at fair value through profit or loss-net	-	-	1,270	64,291	7,860	319,884	7,650	305,471	( 7,567 )	1,480	71,137

B. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

C. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

D. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.

E. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

F. Information regarding selling non-performing loans

(A) Summary of selling non-performing loans

The information regarding selling non-performing loans for the year ended December 31, 2016 are as follows.

Transaction date	Counterparty	Contents of right of claim	Carrying value	Sale price	Gain or loss from disposal	Attached conditions	Relationship with the Company	Note
2016.06.06	SC LOWY PRIMARY INVESTMENTS LTD	Corporate banking loans	\$ -	\$ 38,733	\$ 38,733	None	None	Note 1
2016.12.26	I R LOAN SERVICING, INC	Corporate banking loans	-	1,775	1,775	None	None	Note 2

Note 1: The book value and sales price of the loan transaction were US\$0 thousand and US\$1,202.5 thousand, respectively. The currency exchange rate of the Bank was 1:32.2103.

Note 2: The book value and sales price of the loan transaction were JPY0 thousand and JPY6,000 thousand, respectively. The currency exchange rate of the Bank was 1:0.2959.

(B) Sale of non-performing loans exceeding NT\$1 billion (excluding sale to related parties): None.

G. Information on and categories of securitized assets which are approved by the authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act: None.

H. Other material transaction items which were significant to the users of the financial statements: None.

(2) Supplementary disclosure regarding investee companies:

A. Supplementary disclosure regarding investee companies as of December 31, 2016:

Investee companies	Address	Main service	Percentage of ownership %	Book value	Investment income (loss)	Share-holdings of the Bank and related enterprises			Note
						Share (in thousands)	Proforma		
							number of stock held	Share (in thousands)	
Mega Management Consulting Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Venture capital and management consulting etc.	100.00%	\$ 66,316	\$ 35,603	None	1,000	1,000	100.00%
Cathay Investment & Development Corporation (Bahamas)	Post Office Box 3937 Nassau, Bahamas	International investment and exploration	100.00%	60,195	2,550	None	5	5	100.00%
Cathay Investment & Warehousing Co., S.A.	Calle 16 Colon Free Zone Local NO.4 Edificio NO.49 P. O. Box 4036 Colon Free Zone, Colon, Republic of Panama	1. Storage and warehousing of imported commodities 2. Manage and make the investment for the business in foreign trade business 3. Office rental	100.00%	55,941 (	2,800)	None	1	1	100.00%
Ramlett Finance Holdings Inc.	Calle 50 y Esquina Margarita A de Vallarino Entrada Nuevo Campo Alegre Edificio ICBC, Panama	Real estate investment industry	100.00%	6,931	1,176	None	2	2	100.00%
Yung-Shing Industries Co.	7F., No.100, Jilin Rd., Taipei City	Packaging, printing and agency of manpower service	99.56%	690,960	58,267	None	299	299	99.56%
China Products Trading Company	7F., No.100, Jilin Rd., Taipei City	Investments in products businesses, storage businesses and other businesses	68.27%	27,661	422	None	68	68	68.27%
Mega I Venture Capital Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Investment industry	25.00%	27,997 (	3,037)	None	8,438	8,438	25.00%
An Feng Enterprise Co., Ltd.	3F., No.139, Jhengjhou Rd., Taipei City	Automatic Teller Machine rental, configure and maintain	25.00%	11,844	683	None	900	900	30.00%
Taiwan Finance Co., Ltd.	3F., No.123, Sec. 2, Nanjing E. Rd., Taipei City	Brokerage underwriting endorsement of commercial papers, proprietary trading of government bonds and corporate bonds	24.55%	1,574,082	84,860	None	126,714	126,714	24.55%
Everstrong Iron & Steel Foundry & Mfg Corp.	NO.1 Shiquan Rd., Xiaogang Dist., Kaohsiung City	Iron and steel making	22.22%	43,457	2,542	None	1,760	1,760	22.22%
China Real Estate Management Co., Ltd.	11F., No.35, Guangfu S. Rd., Taipei City	Real estate and property selling	20.00%	183,507	2,451	None	9,000	9,000	20.00%

(In NT Thousand Dollars)

Investee companies	Address	Main service	Percentage of ownership %	Book value	Investment income (loss)	Share (in thousands)	Share of ownership (%)	Share-holdings of the Bank and related enterprises	
								Proforma information on stock held	Total
Universal Venture Capital Investment Corporation	7F., No.91, Hengyang Rd., Taipei City	Venture capital	11.84%	\$ 138,127	\$ 44,480	14,250	14,250	None	11.84%
Mega Growth Venture Capital Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Venture capital	11.81%	146,735	( 1,462)	15,000	15,000	None	11.81%
IP Fund Seven Ltd. (Note)	7F., No.122, Dunhua N. Rd., Songshan District, Taipei City	Investment industry	0.00%	-	1,383	-	-	None	0.00%
Win Card Co., Ltd.	4F., No.99, Sec. 3, Chongyang Rd., Sanchong Dist., New Taipei City	Corporate management consulting, data processing business and general advertising services	100.00%	39,351	8,806	200	200	None	100.00%
ICBC Asset Management & Consulting Co., Ltd	No.100, Jilin Rd., Taipei City	Investment consulting, corporate management consulting and venture investment management consulting	100.00%	24,777	4,363	2,000	2,000	None	100.00%

Note: The company had been incurring operating losses for a long period of time. As a result, the stockholders at their meeting resolved to liquidate the company and scheduled the liquidation registration in year 2015. The liquidation process had been completed on August 18, 2016.

B. For those investee companies that the Bank has direct or indirect control interest over, further disclosures are as follows:

- (A) Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.
- (B) Information on the disposal of the real estate for which the sale amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.
- (C) Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.
- (D) Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.
- (E) Information regarding selling non-performing loans: None.
- (F) Information on and categories of securitized assets which are approved by the authority pursuant to the Financial Asset Securitization Act or the Real Estate Securitization Act: None.
- (G) Lending to other parties: None.
- (H) Guarantees and endorsements for other parties: None.

## (I) Information regarding securities held as of December 31, 2016:

(Expressed in NT Thousand Dollars)

Name of Holding Company	Type and Name of Marketable Securities	Relationship with the Securities Issuer	At year-end				Ownership Percentage (%)	Market value	Note
			Account	Share / Units (in thousands)	Book value				
Yung-Shing Industries Co.	Stocks								
Yung-Shing Industries Co.	SysJust Corporation	None	Financial assets carried at cost	671	\$ 6,878	2.64%	\$ 6,878		
Yung-Shing Industries Co.	Hi-Scene World Enterprise Co., Ltd.	None	Financial assets carried at cost	2,370	5,272	1.54%	5,272		
Yung-Shing Industries Co.	Hua-sheng Venture Capital Investment Corp.	None	Financial assets carried at cost	1,069	10,688	1.67%	10,688		
Yung-Shing Industries Co.	Win Card Co., Ltd.	Equity investees	Investments accounted for by the equity method	200	39,351	100.00%	39,351		
Yung-Shing Industries Co.	ICBC Assets Management & Consulting Co., Ltd.	Equity investees	Investments accounted for by the equity method	2,000	24,777	100.00%	24,777		
Yung-Shing Industries Co.	An Feng Enterprise Co., Ltd.	Equity investees	Investments accounted for by the equity method	150	2,197	5.00%	2,197		
					<u>\$ 89,163</u>				
Cathay Investment & Development Corporation (Bahamas)	Funds								
Cathay Investment & Development Corporation (Bahamas)	AsiaTech Taiwan Venture Fund LP	None	Financial assets carried at cost	-	\$ 7,709	-	\$ 7,709		
Cathay Investment & Development Corporation (Bahamas)	Tai An Technologies Corp.	None	Financial assets carried at cost	-	1,972	-	1,972		
	Accumulated impairment				( 7,405)				
	Total				<u>\$ 2,276</u>				

(J) Information regarding securities for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Bank's paid-in capital: None.

(K) Information regarding trading in derivative financial instruments: None.

(L) Other material transaction items which were significant to the users of the financial statements: None.

## (3) Investments in People's Republic of China:

Unit : In NT Thousand Dollars

Name of Investee Company in Mainland China	Main Business	Paid-in Capital	Investment method	Accumulated amount of investment as of January 1, 2016	For the year ended December 31, 2016		Accumulated amount of investments as of December 31, 2016	Net income of investee as of December 31, 2016	The Company's Direct/ Indirect Percentage of Ownership (%)	Investment Income (Loss) for the period (Note 2)	Carrying amount of investment as of December 31, 2016	Investment income remitted as of December 31, 2016
					Reinvestment	Withdrawal						
Mega International Commercial Bank Suzhou Branch (Including Wujiang Sub-Branch and Kunshan Sub-Branch)	Banking businesses approved by the local government	\$ 4,796,000 (Note 3)	Branch	\$ 4,796,000 (Note 3)	\$ -	\$ -	\$ 4,796,000 (Note 3)	\$ 140,272	None	\$ 140,272	\$ -	\$ -
Mega International Commercial Bank Ningbo Branch	Banking businesses approved by the local government	\$ 5,122,458 (Note 4)	Branch	\$ 5,122,458 (Note 4)	\$ -	\$ -	\$ 5,122,458 (Note 4)	(\$ 62,125)	None	(\$ 62,125)	\$ -	\$ -

Accumulated investment amounts in Mainland China as of December 31, 2016	Investment amount approved by the investment audit committee of the Ministry of Economic Affairs	Limits on investment amounts established by The investment audit committee of the Ministry of Economic Affairs (Note 1)
\$ 9,918,458(Note 3)(Note 4)	\$ 9,918,458(Note 3)(Note 4)	\$ 154,538,548

Note 1: Limit calculation is as follows (The Bank's net worth is \$257,564,247 thousand) \$257,564,247 thousand x 60% = \$154,538,548 thousand.

Note 2: Relevant operating income and expense of the subsidiary, Mega International Commercial Bank Suzhou(Including Wujiang Sub-Branch and Kunshan Sub-Branch ) and Ningbo Branch have been included the gains and losses of the Bank.

Note 3: Based on the approved investment amount (RMB\$1 billion, approximately US\$160,000 thousand) pursuant to Jing-Shen-II-Zi Letter No. 1000045990 issued by the Investment Commission of the Ministry of Economic Affairs on March 31, 2011. The actual remitted amount, converted using the exchange rate at the date of remittance, was approximately US\$157,347 thousand, which converted to NTD was 4,796,000 thousand.

Note 4: Based on the approved investment amount (RMB\$1 billion, approximately US\$167,000 thousand) pursuant to Jing-Shen-II-Zi Letter No. 10300306930 issued by the Investment Commission of the Ministry of Economic Affairs on December 9, 2014. The actual remitted amount, converted using the exchange rate at the date of remittance, was approximately US\$162,411 thousand, which converted to NTD was 5,122,458 thousand.

Note5: Unit: NT thousand dollars (unless otherwise noted).

## (4) Significant transactions between parent company and subsidiaries

Unit: In NT Thousand Dollars

No. (Note 1)	Company	Counterparty	Relationship (Note 2)	Details of transactions			
				Account	Amount	Conditions	Percentage (%) of total consolidated net revenues or assets (Note 3)
0	Mega International Commercial Bank Co., Ltd.	Mega ICBC (Canada)	1	Due from Commercial Banks	\$ 86,417	No significant difference from general customers	0.00%
0	"	"	1	Call Loans to Banks	28,679	"	0.00%
0	"	"	1	Due to Other Banks	43,234	"	0.00%
0	"	"	1	Receivables	5	"	0.00%
0	"	"	1	Interest Revenue	83	"	0.00%
0	"	"	1	Interest Expenses	301	"	0.00%
0	"	Mega ICBC (Thailand)	1	Due from Commercial Banks	95,490	"	0.00%
0	"	"	1	Call Loans to Banks	804,936	"	0.03%
0	"	"	1	Due to Other Banks	714,670	"	0.02%
0	"	"	1	Call Loans from other banks	41,121	"	0.00%
0	"	"	1	Interest Revenue	2,808	"	0.01%
0	"	"	1	Interest Expenses	1,600	"	0.00%
1	Mega ICBC (Canada)	Mega International Commercial Bank Co., Ltd.	2	Due from Commercial Banks	43,234	"	0.00%
1	"	"	2	Due to Other Banks	86,417	"	0.00%
1	"	"	2	Call Loans from other banks	28,679	"	0.00%
1	"	"	2	Payables	5	"	0.00%
1	"	"	2	Interest Revenue	301	"	0.00%
1	"	"	2	Interest Expenses	83	"	0.00%
1	"	Mega ICBC (Thailand)	3	Due to Other Banks	410	"	0.00%
2	Mega ICBC (Thailand)	Mega International Commercial Bank Co., Ltd.	2	Due from Commercial Banks	714,670	"	0.02%
2	"	"	2	Call Loans to Banks	41,121	"	0.00%
2	"	"	2	Due to Other Banks	95,490	"	0.00%
2	"	"	2	Call loans from other banks	804,936	"	0.03%
2	"	"	2	Interest Revenue	1,600	"	0.00%
2	"	"	2	Interest Expenses	2,808	"	0.01%
2	"	Mega ICBC (Canada)	3	Due from Commercial Banks	410	"	0.00%

(Note 1) The numbers in the No. column represent as follows:

1. 0 for the parent company
2. According to the sequential order, subsidiaries are numbered from 1.

(Note 2) Relationship between transaction company and counterparty is classified into the following three categories:

1. Parent company to subsidiary.
2. Subsidiary to parent company.
3. Subsidiary to subsidiary.

(Note 3) Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**

**BALANCE SHEETS**

**(EXPRESSED IN THOUSANDS OF DOLLARS)**

Assets	December 31, 2016		December 31, 2015	January 1, 2015
	NT\$	US\$ (Unaudited)	NT\$	NT\$
<b>Assets</b>				
Cash and cash equivalents	\$ 86,952,288	\$ 2,699,879	\$ 141,794,023	\$ 161,954,100
Due from the Central Bank and call loans to banks	540,639,263	16,786,911	505,796,414	469,613,258
Financial assets at fair value through profit or loss	45,311,254	1,406,920	47,024,122	43,670,656
Securities purchased under resale agreements	4,255,968	132,148	9,435,869	5,850,332
Receivables, net	59,342,642	1,842,596	142,291,246	170,898,252
Current tax assets	122,108	3,791	589,811	522,877
Bills discounted and loans, net	1,699,285,739	52,763,018	1,756,514,539	1,713,988,141
Available-for-sale financial assets, net	205,720,937	6,387,659	231,507,094	187,345,276
Held-to-maturity financial assets, net	276,724,781	8,592,336	197,651,402	161,087,026
Investments accounted for under the equity method, net	8,851,388	274,837	8,794,633	9,076,206
Other financial assets, net	9,669,542	300,240	9,983,801	13,649,219
Property and equipment, net	14,278,800	443,358	14,227,890	14,466,078
Investment property, net	865,039	26,860	868,057	671,195
Deferred tax assets	5,049,996	156,803	4,311,934	3,652,081
Other assets, net	1,614,016	50,115	1,435,091	1,551,070
<b>Total assets</b>	<b>\$ 2,958,683,761</b>	<b>\$ 91,867,471</b>	<b>\$ 3,072,225,926</b>	<b>\$ 2,957,995,767</b>
<b>Liabilities and equity</b>				
<b>Liabilities</b>				
Due to the Central Bank and commercial banks	\$ 384,930,934	\$ 11,952,150	\$ 417,682,508	\$ 459,095,355
Borrowed funds	39,974,427	1,241,211	44,733,966	53,434,282
Financial liabilities at fair value through profit or loss	11,393,071	353,756	21,936,493	27,344,357
Securities sold under repurchase agreements	444,678	13,807	547,798	50,189,662
Payables	32,010,867	993,941	35,683,942	35,856,882
Current tax liabilities	8,106,031	251,693	8,313,012	7,249,595
Deposits and remittances	2,159,117,253	67,040,839	2,222,021,878	2,024,967,933
Financial bonds payable	36,200,000	1,124,014	36,200,000	50,200,000
Other financial liabilities	8,583,989	266,534	8,673,223	9,021,046
Provisions	12,952,174	402,166	11,922,046	10,451,785
Deferred tax liabilities	2,161,652	67,120	2,153,957	2,143,376
Other liabilities	5,244,438	162,840	8,864,152	9,531,053
<b>Total liabilities</b>	<b>2,701,119,514</b>	<b>83,870,071</b>	<b>2,818,732,975</b>	<b>2,739,485,326</b>
<b>Equity</b>				
<b>Share capital</b>				
Common stock	85,362,336	2,650,510	85,362,336	77,000,000
<b>Capital reserve</b>	<b>62,219,540</b>	<b>1,931,924</b>	<b>62,219,540</b>	<b>46,498,006</b>
<b>Retained earnings</b>				
Legal reserve	73,987,859	2,297,332	66,275,325	58,483,335
Special reserve	3,873,832	120,283	3,845,354	3,822,741
Undistributed earnings	33,582,479	1,042,740	35,561,380	29,916,495
<b>Other equity</b>	<b>( 1,461,799 )</b>	<b>( 45,389 )</b>	<b>229,016</b>	<b>2,789,864</b>
<b>Total equity</b>	<b>257,564,247</b>	<b>7,997,400</b>	<b>253,492,951</b>	<b>218,510,441</b>
<b>Total liabilities and equity</b>	<b>\$ 2,958,683,761</b>	<b>\$ 91,867,471</b>	<b>\$ 3,072,225,926</b>	<b>\$ 2,957,995,767</b>

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**

**STATEMENTS OF COMPREHENSIVE INCOME**

**(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)**

	For the years ended December 31,		
	2016		2015
	NT\$	US\$	NT\$
		(Unaudited)	
Interest revenue	\$ 50,236,766	\$ 1,559,857	\$ 53,192,080
Less: interest expense	( 15,191,706 )	( 471,704 )	( 17,705,988 )
<b>Net interest income</b>	<b>35,045,060</b>	<b>1,088,153</b>	<b>35,486,092</b>
<b>Non-interest income</b>			
Net service fee income	7,840,059	243,435	8,532,374
Gains (loss) on financial assets and liabilities at fair value through profit or loss	3,009,229	93,437	( 1,148,661 )
Realized gains on available-for-sale financial assets	1,596,716	49,578	1,190,984
Realized loss on held-to maturity financial assets	( 189 )	( 6 )	-
Foreign exchange gain	2,046,115	63,532	2,837,759
Loss on asset impairment	( 334,397 )	( 10,383 )	( 487,652 )
Investment income recognized by the equity method	451,001	14,004	458,238
Net other non-interest income	227,825	7,074	324,511
Gain on financial assets carried at cost	803,272	24,942	764,288
Indemnity income	-	-	1,717,260
Net other miscellaneous loss(income)	( 5,504,048 )	( 170,901 )	140,298
<b>Net operating income</b>	<b>45,180,643</b>	<b>1,402,865</b>	<b>49,815,491</b>
(Provision) reversal for loan losses and guarantee reserve	( 3,593,348 )	( 111,574 )	544,711
<b>Operating expenses</b>			
Employee benefits expenses	( 11,715,001 )	( 363,752 )	( 13,072,291 )
Depreciation and amortization	( 477,486 )	( 14,826 )	( 477,292 )
Other general and administrative expenses	( 6,336,881 )	( 196,761 )	( 6,560,315 )
<b>Income from continuing operations before income tax</b>	<b>23,057,927</b>	<b>715,952</b>	<b>30,250,304</b>
Income tax expense	( 4,047,966 )	( 125,690 )	( 4,541,859 )
<b>Net income</b>	<b>19,009,961</b>	<b>590,262</b>	<b>25,708,445</b>
<b>Other comprehensive income</b>			
<b>Non-reclassifiable to profit or loss subsequently</b>			
Remeasurement of defined benefit plan	( 534,337 )	( 16,591 )	( 1,398,743 )
Income tax relating to the components of other comprehensive income	90,837	2,820	237,786
<b>Potentially reclassifiable to profit or loss subsequently</b>			
Cumulative translation differences of foreign operations	( 1,190,886 )	( 36,977 )	198,203
Unrealized loss on valuation of available-for-sale financial assets	( 373,245 )	( 11,589 )	( 2,361,247 )
Share of other comprehensive loss of associates and joint ventures accounted for under the equity method	( 126,684 )	( 3,934 )	( 397,804 )
<b>Total other comprehensive loss (after income tax)</b>	<b>( 2,134,315 )</b>	<b>( 66,271 )</b>	<b>( 3,721,805 )</b>
<b>Total comprehensive income</b>	<b>\$ 16,875,646</b>	<b>\$ 523,991</b>	<b>\$ 21,986,640</b>
<b>Earnings per share</b>			
Basic and diluted earnings per share (in dollars)	\$ 2.23	\$ 0.07	\$ 3.27



**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	Retained earnings				Other equity		Total
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Differences of Foreign Operations	
<b>For the year ended December 31, 2016 (NT Dollars)</b>							
Balance, January 1, 2016	\$ 85,362,336	\$ 62,219,540	\$ 66,275,325	\$ 3,845,354	\$ 35,561,380	\$ 331,363	\$ 102,347
Earnings distribution for 2015	-	-	-	-	( 12,804,350 )	-	-
Cash dividends	-	-	-	-	( 7,712,534 )	-	( 12,804,350 )
Legal reserve	-	-	7,712,534	-	( 28,478 )	-	-
Special reserve	-	-	-	28,478	( 19,009,961 )	-	-
Net income for the year of 2016	-	-	-	-	( 443,500 )	( 1,257,596 )	( 433,219 )
Other comprehensive loss for the year of 2016	-	-	-	-	33,582,479	( 926,233 )	( 535,566 )
Balance, December 31, 2016	\$ 85,362,336	\$ 62,219,540	\$ 73,987,859	\$ 3,873,832	\$ 33,582,479	\$ 926,233	\$ 535,566
<b>For the year ended December 31, 2016</b> <b>(US Dollars - Unaudited)</b>							
Balance, January 1, 2016	\$ 2,650,510	\$ 1,931,924	\$ 2,057,857	\$ 119,399	\$ 1,104,185	\$ 10,289	\$ 3,178
Earnings distribution for 2015	-	-	-	-	( 397,577 )	-	-
Cash dividends	-	-	-	-	( 239,475 )	-	-
Legal reserve	-	-	239,475	-	( 884 )	-	-
Special reserve	-	-	-	884	590,262	-	-
Net income for the year of 2016	-	-	-	-	( 13,771 )	( 39,049 )	( 13,451 )
Other comprehensive loss for the year of 2016	-	-	-	-	\$ 1,042,740	( 28,760 )	( 16,629 )
Balance, December 31, 2016	\$ 2,650,510	\$ 1,931,924	\$ 2,297,332	\$ 120,283	\$ 1,042,740	( 28,760 )	( 16,629 )

(Continued)

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**  
**STATEMENTS OF CHANGES IN EQUITY**  
**(EXPRESSED IN THOUSANDS OF DOLLARS)**

	Retained earnings				Other equity		Total
	Capital Stock	Capital Reserve	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Differences of Foreign Operations	
For the year ended December 31, 2015 (NT Dollars)							
Balance, January 1, 2015	\$ 77,000,000	\$ 46,498,006	\$ 58,483,335	\$ 3,822,741	\$ 29,916,495	\$ 550,023	\$ 2,239,841
Earnings distribution for 2014	-	-	-	-	( 11,088,000 )	-	-
Cash dividends	-	-	-	-	( 7,791,990 )	-	-
Legal reserve	-	-	7,791,990	-	( 25,253 )	-	-
Special reserve	-	-	-	25,253	( 2,640 )	-	-
Reversal of special reserve	-	-	-	( 2,640 )	2,640	-	-
Issuance of common stock	8,362,336	15,722,164	-	-	-	-	-
Changes in capital surplus of associates and joint ventures accounted for under equity method	-	( 630 )	-	-	-	-	( 630 )
Net income for the year of 2015	-	-	-	-	25,708,445	-	-
Other comprehensive loss for the year of 2015	-	-	-	-	( 1,160,957 )	( 218,660 )	( 2,342,188 )
Balance, December 31, 2015	\$ 85,362,336	\$ 62,219,540	\$ 66,275,325	\$ 3,845,354	\$ 35,561,380	\$ 331,363	\$ 102,347

(Blank below)

Balance, December 31, 2015

\$ 253,492,951

**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**

**STATEMENTS OF CASH FLOWS  
(EXPRESSED IN THOUSANDS OF DOLLARS)**

	For the years ended December 31,		
	2016		2015
	NT\$	US\$ (Unaudited)	NT\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Consolidated income before income tax	\$ 23,057,927	\$ 715,952	\$ 30,250,304
Adjustments to reconcile income before tax to net cash provided by operating activities			
Income and expenses having no effect on cash flows			
Provision for loan losses and guarantee reserve (reversal)	3,593,348	111,574	( 544,711 )
Depreciation	471,791	14,649	473,370
Amortization	5,695	177	3,922
Interest income	( 50,236,766 )	( 1,559,857 )	( 53,192,080 )
Dividend income	( 1,102,239 )	( 34,225 )	( 1,133,014 )
Interest expense	15,191,706	471,704	17,705,988
Investment income recognized under the equity method	( 451,001 )	( 14,004 )	( 454,892 )
Proceeds from disposal of investments under the equity method	-	-	( 3,346 )
Gain on disposal of property and equipment	( 723 )	( 23 )	( 2,861 )
Loss on asset impairment	334,397	10,383	487,652
Loss on retirement of property and equipment	253	8	510
Changes in assets/liabilities relating to operating activities			
Decrease in due from the Central Bank and call loans to banks	6,827,796	212,004	17,039,254
Decrease (increase) in financial assets at fair value through profit or loss	1,712,868	53,185	( 3,353,466 )
Decrease in receivables	83,681,216	2,598,311	28,223,330
Decrease (increase) in bills discounted and loans	53,574,085	1,663,481	( 42,522,615 )
Decrease (increase) in available-for-sale financial assets	25,309,572	785,865	( 46,876,359 )
Increase in held-to-maturity financial assets	( 79,073,379 )	( 2,455,238 )	( 36,564,376 )
(Increase) decrease in other financial assets	( 125,896 )	( 3,909 )	3,653,948
(Increase) decrease in other assets	( 184,590 )	( 5,732 )	111,831
Decrease in due to the Central Bank and commercial banks	( 32,751,574 )	( 1,016,940 )	( 41,412,847 )
Decrease in financial liabilities at fair value through profit or loss	( 10,543,422 )	( 327,374 )	( 5,407,864 )
Decrease in securities sold under repurchase agreements	( 103,120 )	( 3,202 )	( 49,641,864 )
(Decrease) increase in payables	( 3,465,766 )	( 107,612 )	5,384
(Decrease) increase in deposits and remittances	( 62,904,625 )	( 1,953,196 )	197,053,945
Decrease in other financial liabilities	( 89,234 )	( 2,771 )	( 347,823 )
Increase in reserve for employee benefit liabilities	45,482	1,412	35,435
Decrease in other liabilities	( 3,085,411 )	( 95,802 )	( 186,734 )
Interest received	50,017,566	1,553,051	53,205,991
Dividend received	1,498,304	46,523	1,504,562
Interest paid	( 15,399,015 )	( 478,141 )	( 17,884,610 )
Income tax paid	( 4,426,774 )	( 137,452 )	( 3,956,862 )
Net cash provided by operating activities	1,378,471	42,801	46,269,102
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from disposal of investments under the equity method	2,747	85	21,924
Acquisition of investments accounted for under the equity method	-	-	( 150,000 )
Proceeds from capital reduction of investee accounted for under the equity method	-	-	97,877
Proceeds from capital reduction of financial assets carried at cost	193	6	-
Acquisitions of property and equipment	( 460,718 )	( 14,305 )	( 360,085 )
Proceeds from disposal of property and equipment	1,379	43	2,861
Net cash used in investing activities	( 456,399 )	( 14,171 )	( 387,423 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Decrease in borrowed funds	( 4,759,539 )	( 147,784 )	( 8,700,316 )
Decrease in financial bonds payable	-	-	( 14,000,000 )
Decrease in deposits received	( 534,303 )	( 16,590 )	( 480,167 )
Payments of cash dividends	( 12,804,350 )	( 397,577 )	( 11,088,000 )
Proceeds from issuance of common stock	-	-	24,084,500
Net cash (used in) provided by financing activities	( 18,098,192 )	( 561,951 )	( 10,183,983 )
<b>EFFECT OF EXCHANGE RATE CHANGES</b>			
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	( 1,174,871 )	( 36,480 )	199,803
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	438,540,846	13,616,744	402,643,347
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 420,189,855	\$ 13,046,943	\$ 438,540,846
<b>CASH AND CASH EQUIVALENTS COMPOSITION:</b>			
Cash and cash equivalents shown in balance sheet	\$ 86,952,288	\$ 2,699,879	\$ 141,794,023
Due from the Central Bank and call loans to bank meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	328,981,599	10,214,916	287,310,954
Securities purchased under resale agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements"	4,255,968	132,148	9,435,869
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 420,189,855	\$ 13,046,943	\$ 438,540,846

## **Head Office**

No.100, Chi-lin Rd., Chung-shan Dist., Taipei 10424, Taiwan

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*As of June 2, 2017*

## **Management Team**

Chao-Shun Chang, Chairman of the Board

Li-Yen Yang, President

Robert Yong-Yi Tsai, Senior Executive Vice President

Shiow Lin, Senior Executive Vice President & General Manager

Yuan-Hsi Lin, Senior Executive Vice President

Ming-Chuan Ko, Senior Executive Vice President

Ruey-Yuan Fu, Senior Executive Vice President

Chen-Shan Lee, Senior Executive Vice President

Yu-Mei Hsiao, Senior Executive Vice President

Hui-Lin Wu, Chief Compliance Officer

Fu-Yung Chen, Chief Auditor



Office / Department	Manager & Title	Fax Number
Auditing Department	Fu-Yung Chen Chief Auditor	+886-2-23569801
Planning Department	Yu-Chuan Lu Senior Vice President & General Manager	+886-2-25633122
Anti-Money Laundering & Financial Crime Compliance Department	Lih-Hwang Chiou Vice President & General Manager	+886-2-25230081
Legal Affairs and Compliance Department	Ling-Chiun Lin Vice President & General Manager	+886-2-25632004
Overseas Branches Administration Department	Cheng-Chian Tsao Senior Vice President & General Manager	+886-2-23569169
Business Administration Department	Wen-Guan Chen Senior Vice President & General Manager	+886-2-23935116
General Affairs and Occupational Safety & Health Department	Chia-Ying Chi Senior Vice President & General Manager	+886-2-23568936
Human Resources Department	Chorng-Hwa Lan Senior Vice President & General Manager	+886-2-23569531
Data Processing & Information Department	Kuo-Pao Chen Senior Vice President & General Manager	+886-2-23416430
Controller's Department	Ching-Yi Li Senior Vice President & Controller	+886-2-23568601
Credit Analysis Department	Ven-Chien Chen Senior Vice President & General Manager	+886-2-25711352
Overdue Loan & Control Department	Chi-Ho Chen Vice President & General Manager	+886-2-23560580
Credit Products & Marketing Department	Jian-Pyng Lee Vice President & General Manager	+886-2-25625669
Credit Control Department	Chun-Ko Su Senior Vice President & General Manager	+886-2-25310691
Risk Management Department	Ta-Sheng Chen Senior Vice President & General Manager	+886-2-23568506
Digital Banking Department	Hsiu-Ho Hsu Senior Vice President & General Manager	+886-2-25633267
Wealth Management Department	Josephine Chao-Jung Chen Vice President & General Manager	+886-2-25631601
Direct Investment Department	Tsung-Jen Cheng Senior Vice President & General Manager	+886-2-25630950
Trust Department	Li-Chu You Senior Vice President & General Manager	+886-2-25235002
Treasury Department	Yau-Fuh Chou Vice President & General Manager	+886-2-25613395
Foreign Department	Yung-Chen Huang Senior Vice President & General Manager	+886-2-25632614
Offshore Banking Branch	Chien-Chuang Chien Vice President & General Manage	+886-2-25637138

## Domestic Branches

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Heng Yang Branch	Wei-Shing Fan Vice President & General Manager	No.91, Heng-yang Rd., Chung-cheng Dist., Taipei 10009, Taiwan	+886-2-23888668	+886-2-23885000
Cheng Chung Branch	Dah-Jyh Wang Senior Vice President & General Manager	No.42, Hsu-chang St., Chung-cheng Dist., Taipei 10047, Taiwan	+886-2-23122222	+886-2-23111645
Ministry of Foreign Affairs Branch	Show-Mei Tang Vice President & General Manager	Room 129, No.2, Kaitakelan Blvd., Chung-cheng Dist., Taipei 10048, Taiwan	+886-2-23482065	+886-2-23811858
Central Branch	Tung-Lung Wu Vice President & General Manager	No.123, Sec.2, Jhong-siao E. Rd., Chung-cheng Dist., Taipei 10058, Taiwan	+886-2-25633156	+886-2-23569750
South Taipei Branch	Hseigh-Fang Chuang Vice President & General Manager	No.9-1, Sec.2, Roosevelt Rd., Chung-cheng Dist., Taipei 10093, Taiwan	+886-2-23568700	+886-2-23922533
Ta Tao Cheng Branch	Wen-Yann Wang Vice President & General Manager	No.62-5, Hsi-ning N. Rd., Dah-tong Dist., Taipei 10343, Taiwan	+886-2-25523216	+886-2-25525627
Dah Tong Branch	Yuen-Chin Chiu Vice President & General Manager	No.113, Nan-king W. Rd., Dah-tong Dist., Taipei 10355, Taiwan	+886-2-25567515	+886-2-25580154
Yuan Shan Branch	Ming-Kai Chao Vice President & General Manager	No.133, Sec.2, Zhong-shan N. Rd., Zhong-shan Dist., Taipei 10448, Taiwan	+886-2-25671488	+886-2-25817690
Chung Shan Branch	Lian-Yuh Tsai Vice President & General Manager	No.15, Sec.2, Chung-shan N. Rd., Chung-shan Dist., Taipei 10450, Taiwan	+886-2-25119231	+886-2-25635554
Nanking East Road Branch	Tsuey-Ping Chang Vice President & General Manager	No.53, Sec.2, Nan-king E. Rd., Chung-shan Dist., Taipei 10457, Taiwan	+886-2-25712568	+886-2-25427152
North Taipei Branch	Yu-Sheng Cheng Vice President & General Manager	No.156-1, Sung-chiang Rd., Chung-shan Dist., Taipei 10459, Taiwan	+886-2-25683658	+886-2-25682494
Taipei Fusing Branch	Shiou-Mei Lin Senior Vice President & General Manager	No.198, Sec.3, Nan-king E. Rd., Chung-shan Dist., Taipei 10488, Taiwan	+886-2-27516041	+886-2-27511704
Taipei Airport Branch	Shu-Ching Tung Vice President & General Manager	Taipei Sungshan Airport Building, No.340-9, Tun-hua N. Rd., Sung-shan Dist., Taipei 10548, Taiwan	+886-2-27152385	+886-2-27135420
Dun Hua Branch	Shao-Ping Tang Vice President & General Manager	No.88-1, Dun-hua N. Rd., Sung-shan Dist., Taipei 10551, Taiwan	+886-2-87716355	+886-2-87738655
Sung Nan Branch	Chin-Kun Kuo Vice President & General Manager	No.234, Sec.5, Nan-king E. Rd., Sung-shan Dist., Taipei 10570, Taiwan	+886-2-27535856	+886-2-27467271
East Taipei Branch	An-Chang Chen Vice President & General Manager	No.52, Sec.4, Min-sheng E. Rd., Sung-shan Dist., Taipei 10574, Taiwan	+886-2-27196128	+886-2-27196261
Ming Sheng Branch	Shoei-Bin Lin Vice President & General Manager	No.128, Sec.3, Ming-sheng E. Rd., Sung-shan Dist., Taipei 10596, Taiwan	+886-2-27190690	+886-2-27190688

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Ta An Branch	Tzu-Yuan Yang Vice President & General Manager	No.182, Sec.3, Hsin-yi Rd., Ta-an Dist., Taipei 10658, Taiwan	+886-2-27037576	+886-2-27006352
An Ho Branch	Jen-Jhi Chen Vice President & General Manager	No.62, Sec.2, An-ho Rd., Ta-an Dist., Taipei 10680, Taiwan	+886-2-27042141	+886-2-27042075
Tun Nan Branch	Sui-Huang Lee Vice President & General Manager	No.62, Sec.2, Tun-hua S. Rd., Ta-an Dist., Taipei 10683, Taiwan	+886-2-27050136	+886-2-27050682
Chung Hsiao Branch	Ming-Huei Lee Vice President & General Manager	No.233, Sec.4, Chung-hsiao E. Rd., Ta-an Dist., Taipei 10692, Taiwan	+886-2-27711877	+886-2-27711486
World Trade Center Branch	Yu-Mei Chiu Vice President & General Manager	1F, No.333, Sec.1, Keelung Rd., Hsin-yi Dist., Taipei 11012, Taiwan	+886-2-27203566	+886-2-27576144
Hsin Yi Branch	Shih-Tsung Hsu Vice President & General Manager	No.65, Sec.2, Keelung Rd., Hsin-yi Dist., Taipei 11052, Taiwan	+886-2-23788188	+886-2-23772515
Taipei Branch	Ray-Lin Liao Senior Vice President & General Manager	No.550, Sec.4, Chung-hsiao E. Rd., Hsin-yi Dist., Taipei 11071, Taiwan	+886-2-27587590	+886-2-27581265
Lan Ya Branch	Teh-Ming Wang Senior Vice President & General Manager	No.126, Sec.6, Chung-shan N. Rd., Shih-lin Dist., Taipei 11155, Taiwan	+886-2-28385225	+886-2-28341483
Tien Mou Branch	Kuo-Liang Sun Vice President & General Manager	No.193, Sec.7, Chung-shan N. Rd., Shih-lin Dist., Taipei 11156, Taiwan	+886-2-28714125	+886-2-28714374
Nei Hu Branch	Hong-Yeh Lee Vice President & General Manager	No.68, Sec.4, Cheng-kung Rd., Nei-hu Dist., Taipei 11489, Taiwan	+886-2-27932050	+886-2-27932048
Nei Hu Science Park Branch	Meng-Hsia Tsai Vice President & General Manager	No.472, Jui-kuang Rd., Nei-hu Dist., Taipei 11492, Taiwan	+886-2-87983588	+886-2-87983536
East Nei Hu Branch	Tsuyung Ni Vice President & General Manager	No.202, Kang-chien Rd., Nei- hu Dist., Taipei 11494, Taiwan	+886-2-26275699	+886-2-26272988
Nan Gang Branch	Ruer-Jan Chang Vice President & General Manager	No.21-1, Sec.6, Jhong-siao E. Rd., Nan-gang Dist., Taipei 11575, Taiwan	+886-2-27827588	+886-2-27826685
Keelung Branch	Fu-San Lin Vice President & General Manager	No.24, Nan-jung Rd., Ren-ai Dist., Keelung 20045, Taiwan	+886-2-24228558	+886-2-24294089
Ban Qiao Branch	Ming-Feng Lee Vice President & General Manager	No.51, Sec.1, Wen-hua Rd., Banqiao Dist., New Taipei City 22050, Taiwan	+886-2-29608989	+886-2-29608687
South Banqiao Branch	Hsiu-Chin Hsin Vice President & General Manager	No.148, Sec.2, Nan-ya S. Rd., Banqiao Dist., New Taipei City 22060, Taiwan	+886-2-89663303	+886-2-89661421
Xin Dian Branch	Ying-Chiou Liaw Senior Vice President & General Manager	No.173, Sec.2, Bei-xin Rd., Xindian Dist., New Taipei City 23143, Taiwan	+886-2-29182988	+886-2-29126480
Shuang He Branch	Chi-Huang Wu Vice President & General Manager	No.67, Sec.1, Yong-he Rd., Yonghe Dist., New Taipei City 23445, Taiwan	+886-2-22314567	+886-2-22315288

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Yong He Branch	Pei-Hong Wu Vice President & General Manager	No.201, Fuhe Rd., Yong-he Dist., New Taipei City 23450, Taiwan	+886-2-29240086	+886-2-29240074
Zhong He Branch	Heh-Yeau Wu Vice President & General Manager	No.124, Sec.2, Zhong-shan Rd., Zhonghe Dist., New Taipei City 23555, Taiwan	+886-2-22433567	+886-2-22433568
Tu Cheng Branch	Sue-Chu Wu Vice President & General Manager	No.276, Sec.2, Zhong-yang Rd., Tucheng Dist., New Taipei City 23669, Taiwan	+886-2-22666866	+886-2-22668368
South San Chong Branch	Wei-Chen Lee Vice President & General Manager	No.12, Sec.4, Chong-xin Rd., Sanchong Dist., New Taipei City 24144, Taiwan	+886-2-29748811	+886-2-29724901
San Chong Branch	Tsung-Che Liang Vice President & General Manager	No.99, Sec.3, Chong-yang Rd., Sanchong Dist., New Taipei City 24145, Taiwan	+886-2-29884455	+886-2-29837225
Xin Zhuang Branch	Hwa-San Lo Vice President & General Manager	No.421, Si-yuan Rd., Xinzhuang Dist., New Taipei City 24250, Taiwan	+886-2-22772888	+886-2-22772881
Si Yuan Branch	Shu-Hua Chung Vice President & General Manager	No.169, Si-yuan Rd., Xinzhuang Dist., New Taipei City 24250, Taiwan	+886-2-29986661	+886-2-29985973
Yi Lan Branch	Yu-Lien Chiang Vice President & General Manager	No.338, Min-zu Rd., Yilan City, Yilan County 26048, Taiwan	+886-3-9310666	+886-3-9311167
Lo Tung Branch	Chyi-Yee Chen Vice President & General Manager	No.195, Sec.2, Chun-ching Rd., Lo-tung Town, Ilan County 26549, Taiwan	+886-3-9611262	+886-3-9611260
Chung Li Branch	Shu-Te Hsu Vice President & General Manager	No.46, Fu-hsing Rd., Chung-li Dist., Tao-yuan City 32041, Taiwan	+886-3-4228469	+886-3-4228455
North Chung Li Branch	Lien-Kuei Kuo Vice President & General Manager	No.406, Huan-bei Rd., Chung-li Dist., Tao-yuan City 32070, Taiwan	+886-3-4262366	+886-3-4262135
Tao Yuan Branch	Yuang-Nan Wu Vice President & General Manager	No.2, Sec.2, Cheng-kung Rd., Tao-yuan Dist., Tao-yuan City 33047, Taiwan	+886-3-3376611	+886-3-3351257
Tao Hsin Branch	Ching-N Pong Vice President & General Manager	No.180, Fu-hsin Rd., Tao-yuan Dist., Tao-yuan City 33066, Taiwan	+886-3-3327126	+886-3-3339434
Pa Teh Branch	Ling-Hua Lin Vice President & General Manager	No.19, Da-jhieh Rd., Pa-teh Dist., Tao-yuan City 33450, Taiwan	+886-3-3665211	+886-3-3764012
Tao Yuan International Airport Branch	Alice Yia-Shu Lin Senior Vice President & General Manager	No.15, Hang-jan S. Rd., Dayuan Dist., Tao-yuan City 33758, Taiwan	+886-3-3982200	+886-3-3834315
Nan Kan Branch	Su-Min Liu Vice President & General Manager	No.33, Zhong-zheng Rd., Luzhu Dist., Tao-yuan City 33861, Taiwan	+886-3-3525288	+886-3-3525290
Hsinchu Branch	Chu-Po Chou Vice President & General Manager	No.417-419, Sec.2, Gongdao 5th Rd., Hsinchu City 30069, Taiwan	+886-3-5733399	+886-3-5733311



Branch Name	Manager & Title	Address	Phone Number	Fax Number
North Hsinchu Branch	Tzu-Chen Kung Senior Vice President & General Manager	No.129, Chung-cheng Rd., Hsinchu City 30051, Taiwan	+886-3-5217171	+886-3-5262642
Hsinchu Science Park Chu-tsuen Branch	Yeou-An Lu Senior Vice President & General Manager	No.21, Chu-tsuen 7th Rd., Hsinchu Science Park, Hsinchu City 30075, Taiwan	+886-3-5773155	+886-3-5778794
Hsinchu Science Park Hsin-an Branch	Yung-Cheng Yeh Vice President & General Manager	No.1, Hsin-an Rd., Hsinchu Science Park, Hsinchu City 30076, Taiwan	+886-3-5775151	+886-3-5774044
Jhu Bei Branch	Yu-Ling Lee Vice President & General Manager	No.155, Guang-ming 1st Rd., Jhu-bei City, Hsinchu County 30259, Taiwan	+886-3-5589968	+886-3-5589998
Zhunan Science Park Branch	Deng-Quey Liu Vice President & General Manager	Rm.105, 1F No.36, Ke-yan Rd., Zhunan Township, Miaoli County 35053, Taiwan	+886-37-682288	+886-37-682416
Tou Fen Branch	Chien-Chih Kuo Vice President & General Manager	No.916, Chung-hwa Rd., Tou- fen City, Miao-li County 35159, Taiwan	+886-37-688168	+886-37-688118
Taichung Branch	Rei-Chan Tsai Senior Vice President & General Manager	No.216, Ming-chuan Rd., Central Dist., Taichung 40041, Taiwan	+886-4-22281171	+886-4-22241855
Central Taichung Branch	Chung-Yang Liao Vice President & General Manager	No.194, Sec.1, San-min Rd., West Dist., Taichung 40343, Taiwan	+886-4-22234021	+886-4-22246812
South Taichung Branch	Ming-Kuang Lee Vice President & General Manager	No.257, Sec.1, Wu-chuan W. Rd., West Dist., Taichung 40347, Taiwan	+886-4-23752529	+886-4-23761670
East Taichung Branch	Yow-Der Wang Vice President & General Manager	No.330, Chin-hwa N. Rd., North Dist., Taichung 40457, Taiwan	+886-4-22321111	+886-4-22368621
North Taichung Branch	Shu-Er Huang Vice President & General Manager	No.96, Sec.3, Taiwan Blvd., Xitun Dist., Taichung 40756, Taiwan	+886-4-23115119	+886-4-23118743
Pouchen Branch	De-Chung Liao Vice President & General Manager	No.600, Sec.4, Taiwan Blvd., Xitun Dist., Taichung 40764, Taiwan	+886-4-24619000	+886-4-24613300
Rung Tzung Branch	Ching-Shien Li Vice President & General Manager	No.1650, Sec.4, Taiwan Blvd., Xitun Dist., Taichung 40705, Taiwan	+886-4-23500190	+886-4-23591281
Tai Ping Branch	Jiunn-Horgn Shyu Vice President & General Manager	No.152, Zhong-xing E. Rd., Taiping Dist., Taichung 41167, Taiwan	+886-4-22789111	+886-4-22777546
Da Li Branch	Ya-Ling Chen Vice President & General Manager	No.600, Shuang-wen Rd., Dali Dist., Taichung 41283, Taiwan	+886-4-24180929	+886-4-24180629
Feng Yuan Branch	Hsueh-Chu Hsieh Vice President & General Manager	No.519, Zhong-zheng Rd., Fengyuan Dist., Taichung 42056, Taiwan	+886-4-25285566	+886-4-25274580
Hou Li Branch	Su-Li Lai Vice President & General Manager	No.666, Sec.1, Jia-hou Rd., Houli Dist., Taichung 42144, Taiwan	+886-4-25588855	+886-4-25580166
Tan Zi Branch	Chien-Ping Wu Vice President & General Manager	No.3, Nan 2nd Rd., T.E.P.Z., Tanzi Dist., Taichung 42760, Taiwan	+886-4-25335111	+886-4-25335110

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Central Taiwan Science Park Branch	Ching-Ho Tu Vice President & General Manager	2F., No.28, Ke-ya Rd., Daya Dist., Taichung 42881, Taiwan	+886-4-25658108	+886-4-25609230
Sha Lu Branch	Kaung-Shu Shu Vice President & General Manager	No.533, Zhong-shan Rd., Shalu Dist., Taichung 43344, Taiwan	+886-4-26656778	+886-4-26656399
Da Jia Branch	Teih-Tsang Liang Vice President & General Manager	No.1033, Sec.1, Zhong-shan Rd., Dajia Dist., Taichung 43744, Taiwan	+886-4-26867777	+886-4-26868333
North Changhua Branch	Wen-Yeong Hsieh Vice President & General Manager	No.39, Kuang-fuh Rd., Changhua City, Changhua County 50045, Taiwan	+886-4-7232111	+886-4-7243958
South Changhua Branch	Kuo-Chih Hsu Vice President & General Manager	No.401, Sec.1, Chung-shan Rd., Changhua City, Changhua County 50058, Taiwan	+886-4-7613111	+886-4-7622656
Lu Gang Branch	Kuan-Yu Wu Vice President & General Manager	No.254, Zhong-shan Rd., Lu-gang Town, Changhua County 50564, Taiwan	+886-4-7788111	+886-4-7788600
Yuan Lin Branch	Fu-Kuei Wu Vice President & General Manager	No.338, Sec.1, Da-tong Rd., Yuan-lin City, Changhua County 51056, Taiwan	+886-4-8332561	+886-4-8359359
Nan Tou Branch	Hung-Fuh Wu Vice President & General Manager	No.45, Wen-chang St., Nan-tou City, Nan-tou County 54048, Taiwan	+886-49-2232223	+886-49-2232758
Dou Liu Branch	Chui-Ping Chiang Vice President & General Manager	No.1, Shang-hai Rd., Dou-liu City, Yun-lin County 64048, Taiwan	+886-5-5361779	+886-5-5337830
Chia Yi Branch	Shu-Kwei Chang Vice President & General Manager	No.259, Wen-hua Rd., Chia-yi City 60044, Taiwan	+886-5-2241166	+886-5-2255025
Chia Hsin Branch	Shoh-Chi Doong Vice President & General Manager	No.379, Wu-fong N. Rd., Chia-yi City 60045, Taiwan	+886-5-2780148	+886-5-2769252
Tainan Branch	Hsuan-Shu Chen Senior Vice President & General Manager	No.14, Sec.2, Chung-yi Rd., Tainan 70041, Taiwan	+886-6-2292131	+886-6-2224826
Tainan Fucheng Branch	Chun-Fu Chen Senior Vice President & General Manager	No.90, Chung-shan Rd., Tainan 70043, Taiwan	+886-6-2231231	+886-6-2203771
East Tainan Branch	Yi-Ren Hwang Vice President & General Manager	No.225, Sec.1, Chang-jung Rd., Tainan 70143, Taiwan	+886-6-2381611	+886-6-2378008
Yong Kang Branch	Suen-Pann Chen Vice President & General Manager	No.180, Zhong-shan Rd., Yongkang Dist., Tainan 71090, Taiwan	+886-6-2019389	+886-6-2016251
Tainan Science Park Branch	Ya-Li Tseng Vice President & General Manager	No.13, Nan-ke 3rd Rd., Xinshi Dist., Tainan 74147, Taiwan	+886-6-5052828	+886-6-5051791
Cheng Gong Branch	Charng-Er Kuo Vice President & General Manager	No.88, Chenggong 2nd Rd., Qianzhen Dist., Kaohsiung 80661, Taiwan.	+886-7-5352000	+886-7-3312866
Wu Fu Branch	Guang-Huei Lu Vice President & General Manager	No.82, Wu-fu 2nd Rd., Hsin-hsing Dist., Kaohsiung 80043, Taiwan	+886-7-2265181	+886-7-2260919
Hsin Hsing Branch	Kung-Yeong Wang Vice President & General Manager	No.308, Chung-shan 1st Rd., Hsin-hsing Dist., Kaohsiung 80049, Taiwan	+886-7-2353001	+886-7-2350962

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Kaohsiung Branch	Tsair-Quey Chang Vice President & General Manager	No.235, Chung-cheng 4th Rd., Qian-jin Dist., Kaohsiung 80147, Taiwan	+886-7-2515111	+886-7-2212554
Kaohsiung Metropolitan Branch	Chien-Chung Chen Vice President & General Manager	No.253, Chung-cheng 4th Rd., Qian-jin Dist., Kaohsiung 80147, Taiwan	+886-7-2510141	+886-7-2811426
Ling Ya Branch	Her-Song Pan Vice President & General Manager	No.8, Sze-wei 4th Rd., Ling-ya Dist., Kaohsiung 80247, Taiwan	+886-7-3355595	+886-7-3355695
San Tuo Branch	Chong-Yin Lee Vice President & General Manager	No.93, San-tuo 2nd Rd., Ling-ya Dist., Kaohsiung 80266, Taiwan	+886-7-7250688	+886-7-7211012
San Min Branch	Ching-Feng Chung Vice President & General Manager	No.225, Chung-hua 1st Rd., Gu- shan Dist., Kaohsiung 80455, Taiwan	+886-7-5536511	+886-7-5224202
Kaohsiung Fishing Port Branch	Huey-Ru Chao Vice President & General Manager	Room 107, No.3, Yu-kang E. 2nd Rd., Kaohsiung 80672, Taiwan	+886-7-8219630	+886-7-8117912
Kaohsiung Export Processing Zone Branch	Jia-Feng Liu Vice President & General Manager	No.2, Chung 4th Rd., Kaohsiung Export Processing Zone, Kaohsiung 80681, Taiwan	+886-7-8316131	+886-7-8314393
North Kaohsiung Branch	Kuo-Hua Yeh Vice President & General Manager	No.532, Chiu-ju 2nd Rd., Kaohsiung 80745, Taiwan	+886-7-3157777	+886-7-3155506
East Kaohsiung Branch	Yaw-Ching Tseng Vice President & General Manager	No.419, Ta-shun 2nd Rd., Kaohsiung 80787, Taiwan	+886-7-3806456	+886-7-3806608
Nan Tze Branch	Chen-Hui Chen Vice President & General Manager	No.600-1, Chia-chang Rd., Nantze Export Processing Zone, Kaohsiung 81170, Taiwan	+886-7-3615131	+886-7-3633043
Chung Kang Branch	Ying-Liang Jhu Vice President & General Manager	No.1, Chung-kang Rd., Kaohsiung 81233, Taiwan	+886-7-8021111	+886-7-8034911
Kaohsiung International Airport Branch	Chun-Hsia Chien Vice President & General Manager	Kaohsiung International Airport, No.2, Chung-shan 4th Rd., Kaohsiung 81252, Taiwan	+886-7-8067866	+886-7-8068841
Ren Wu Branch	Ching-Shiang Tsai Vice President & General Manager	No.2, Zhong-zheng Rd., Renwu Dist., Kaohsiung 81451, Taiwan	+886-7-3711144	+886-7-3740764
Gang Shan Branch	Chyi-Fure Jiang Vice President & General Manager	No.138, Zhong-shan N. Rd., Gangshan Dist., Kaohsiung 82065, Taiwan	+886-7-6230300	+886-7-6230608
Feng Shan Branch	Shu-Kun Chang Vice President & General Manager	No.248, Zhong-shan W. Rd., Fengshan Dist., Kaohsiung 83068, Taiwan	+886-7-7473566	+886-7-7477566
Ping Tung Branch	Hsiao-Chin Ma Vice President & General Manager	No.213, Ming-tsu Rd., Ping-tung City, Ping-tung County 90078, Taiwan	+886-8-7323586	+886-8-7321651
Hua Lien Branch	Chih-Haw Liu Vice President & General Manager	No.26, Kung-yuan Rd., Hua-lien City, Hua-lien County 97048, Taiwan	+886-3-8350191	+886-3-8360443
Kin Men Branch	Ping-Sen Liang Vice President & General Manager	No.37-5, Min-sheng Rd., Jin- cheng Town, Kin-men County 89345, Taiwan	+886-82-375800	+886-82-375900

## **Overseas Branches & Representative Offices**

<b>Branch Name</b>	<b>Manager &amp; Title</b>	<b>Address</b>	<b>Phone Number</b>	<b>Fax Number</b>
New York Branch	Shiow Lin Senior Executive Vice President & General Manager	65 Liberty Street, New York, NY 10005, U.S.A.	+1-212-6084222	+1-212-6084943
Los Angeles Branch	Yi-Ming Ko Senior Vice President & General Manager	445 South Figueroa Street, Suite 1900, Los Angeles, CA 90071, U.S.A.	+1-213-4893000	+1-213-4891183
Chicago Branch	Wan-Ling Jwang Vice President & General Manager	2 North La Salle Street, Suite 1803, Chicago, IL 60602, U.S.A.	+1-312-7829900	+1-312-7822402
Silicon Valley Branch	Nian-Tzy Yeh Vice President & General Manager	333 West San Carlos Street, Suite 100, Box 8, San Jose, CA 95110, U.S.A.	+1-408-2831888	+1-408-2831678
Panama Branch	Fan-Tsan Kon Vice President & General Manager	Calle 50 Y Esquina Margarita A, de Vallarino, Entrada Nuevo Campo Alegre, Edificio MEGAICBC No.74, P.O. Box 0832-01598, Panama City, Republic of Panama	+507-2638108	+507-2638392
Colon Free Zone Branch	Tsung-Hsien Chiu Vice President & General Manager	Dominador Bazan y Calle 20, Manzana 31, P.O. Box 0302-00445, Colon Free Zone, Republic of Panama	+507-4471888	+507-4414889
Paris Branch	Jing-Fong Chiou Vice President & General Manager	131-133 Rue de Tolbiac, 75013 Paris, France	+33-1-44230868	+33-1-45821844
Amsterdam Branch	Shiow-Ling Wu Vice President & General Manager	World Trade Center, Strawinskylaan 1203, 1077XX, Amsterdam, The Netherlands	+31-20-6621566	+31-20-6649599
London Branch	Li-Wen Kao Vice President & General Manager	4th Floor, Michael House, 35 Chiswell Street, London, EC1Y 4SE, United Kingdom	+44-20-75627350	+44-20-75627369
Sydney Branch	Bi-Huei Jin Vice President & General Manager	Level 8, 10 Spring Street, Sydney NSW 2000, Australia	+61-2-92301300	+61-2-92335859
Brisbane Branch	Chun-Yu Kuo Vice President & General Manager	Suite 1-3, 3 Zamia Street, Sunnybank, QLD 4109, Australia	+61-7-32195300	+61-7-32195200
Melbourne Branch	Yu-Song Chen Vice President & General Manager	Level 20, 459 Collins Street, Melbourne VIC 3000, Australia	+61-3-86108500	+61-3-96200600
Tokyo Branch	Chih-Liang Chen Vice President & General Manager	7F, Kishimoto Bldg. No.2-1, Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-0005, Japan	+81-3-32116688	+81-3-32165686
Osaka Branch	Hwa-Yueh Lin Vice President & General Manager	4-11, 3-chome, Doshomachi, Chuo-ku, Osaka 541-0045, Japan	+81-6-62028575	+81-6-62023127
Manila Branch	Rong-Hwa Lin Senior Vice President & General Manager	3rd Floor, Pacific Star Bldg., Makati Avenue, Makati City, Philippines	+63-2-8115807	+63-2-8115774
Ho Chi Minh City Branch	Chien-Hung Chen Vice President & General Manager	Ground Floor, Landmark Building, 5B Ton Duc Thang, Dist 1, Ho Chi Minh City, Vietnam	+84-8-38225697	+84-8-38229191
Singapore Branch	Wen-Sheng Chiang Vice President & General Manager	80 Raffles Place#23-20 UOB Plaza 2 Singapore 048624	+65-62277667	+65-62271858
Labuan Branch	Ching-Tsung Wang Vice President & General Manager	Level 7 (E2), Main Office Tower, Financial Park Labuan Complex, Jalan Merdeka, 87000 F. T. Labuan, Malaysia	+60-87-581688	+60-87-581668

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Kuala Lumpur Marketing Office	Ching-Tsung Wang Vice President & General Manager	Suite 12-04, Level 12, Wisma Goldhill 67, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia	+60-3-20266966	+60-3-20266799
Hong Kong Branch	Chao-Ho Lee Senior Vice President & General Manager	Suite 2201, 22/F, Prudential Tower, The Gateway, Harbour City, 21 Canton Road, Tsimshatsui, Kowloon, Hong Kong	+852-25259687	+852-25259014
Phnom Penh Branch	Mao-Jung Chu Vice President & General Manager	No.139, St.274 Independent Monument, BKK I, Chamkarmorn, Phnom Penh, Cambodia	+855-23-988101	+855-23-217982
Phnom Penh Airport Sub-Branch	Yao-Tsung Huang Vice President & General Manager	No.601, Confederation De La Russie Blvd., Phum Porbrork Khangchoeung, Sangkat Karkab, Khan Porsenchey, Phnom Penh, Cambodia	+855-23-969656	+855-23-969661
Olympic Sub-Branch	Pei-Wuu Hsieh Vice President & General Manager	No.38B, Preah Monireth Blvd. (Street 217), Phum 10, Sangkat Toul Svay Prey 2, Khan Chamkarmorn, Phnom Penh, Cambodia	+855-23-988130	+855-23-988134
Tuol Kouk Sub-Branch	Chin-Lung Chou Vice President & General Manager	No.2A-2B, Street 315, Phum 8, Sangkat Boeng Kak 1, Khan Tuol Kouk, Phnom Penh, Cambodia	+855-23-988156	+855-23-988155
Suzhou Branch	Jing-Fu Yang Senior Vice President & General Manager	RM 104, 1F, Jianwu Building, No.188, Wangdun Rd., Suzhou Industrial Park, Jiangsu, China	+86-512-62966568	+86-512-62966698
Wujiang Sub-Branch	Ting-Hau Chang Vice President & General Manager	NO.768, Yundong Road, Wujiang Economic and Technological Development Zone, Suzhou, Jiangsu, China	+86-512-66086088	+86-512-66086006
Kunshan Sub-Branch	Chien-Ting Liu Vice President & General Manager	1F, No.180, Qianjin Middle Road, Kunshan, Suzhou, Jiangsu, China	+86-512-50376166	+86-512-50376169
Ningbo Branch	Ying-Chin Hsu Vice President & General Manager	No.1880 Zhongshan East Road, Jiangdong District, Ningbo, Zhejiang Province, China	+86-574-87283939	+86-574-87283737
Representative Office in Bahrain	Chou-Wen Pan Vice President & Representative	Flat 1, Abulfatih Building, Block 319, Rd 1906 Al Hoor Area, P.O. Box 5806, Manama, State of Bahrain	+971-2-6815555 Ext. 248	+971-2-6817744
Representative Office in Mumbai	Hung-Hui Chen Vice President & Representative	Trade Centre, Level Ground & 1, Bandra-Kurla Complex, Bandra East, Mumbai, 400051, India	+91-22- 61623297	+91- 22-61623800
Representative Office in Abu Dhabi	Chou-Wen Pan Vice President & Representative	3002, 30th FL, Shining Towers, Khalidiya, P.O.Box 42782, Abu Dhabi, U.A.E.	+971-2-6671846	+971-2-4488263
Representative Office in Yangon	Juei-Heng Chia Vice President & Representative	Room 110, Prime Hill Business Square, No.60, Shwe Dagon Pagoda Road, Dagon Township, Yangon, Myanmar	+95-1-382-710 Ext. 11010	

## Subsidiaries

Mega International Commercial Bank (Canada)				
Branch Name	Manager & Title	Address	Phone Number	Fax Number
Head Office	Chung-Shin Loo President & Chief Executive Officer	North York Madison Centre, 4950 Yonge Street, Suite 1002, Toronto, Ontario, M2N 6K1, Canada	+1-416-9472800	+1-416-9479964
Vancouver Branch	Ming-Shan Wu Vice President & General Manager	1095 West Pender Street, Suite 1250, Vancouver, British Columbia, V6E 2M6, Canada	+1-604-6895650	+1-604-6895625

Mega International Commercial Bank Public Co., Ltd.				
Branch Name	Manager & Title	Address	Phone Number	Fax Number
Head Office	Jia-Hong Wu President & Chief Executive Officer	36/12 P.S. Tower, Asoke, Sukhumvit 21 Road, Klongtoey-nua, Wattana, Bangkok 10110, Thailand	+66-2-2592000	+66-2-2591330
Chonburi Branch	Tong-Hai Her Vice President & General Manager	88/89 Moo 1, Sukhumvit Road, Huaykapi Sub-District, Muang District, Chonburi Province 20000, Thailand	+66-38-192158	+66-38-192117
Bangna Branch	Shih-Yung Wu Vice President & General Manager	MD Tower, 2nd Floor, Unit B, No.1, Soi Bangna-Trad 25, Bangna Sub-District, Bangna District Bangkok Province 10260, Thailand	+66-2-3986161	+66-2-3986157
Ban Pong Branch	Shain-Ren Chen Vice President & General Manager	99/47-48 Sonpong Road, Ban Pong, Ratchaburi 70110, Thailand	+66-32-222882	+66-32-221666
Rayong Branch	Yang-Der Fu Vice President & General Manage	500/125 Moo 3 Tambol Tasith, Amphur Pluak Daeng, Rayong Province 21140, Thailand	+66-38-950276	+66-38-950284

# Annual Report 2016



**Mega International Commercial Bank**

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