

玉山二十六年  
26th

E.SUN BANK 5847  
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# ANNUAL REPORT 2017



106 年 年 報



玉山銀行 E.SUN BANK



E.SUN BANK 26th



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# I. Letter to Shareholders

**D**ear Shareholders

2017 was a year of change and challenges in the global political and economic environment. The overall economy maintained stable growth despite the new administration of the United States, elections in Europe; the United Kingdom's negotiating its exit from the European Union, China's structural adjustments, and geopolitical risks on the Korean Peninsula and in the Middle East. Many innovative products and services were created along with FinTech developments, and pose challenges to our expertise and capabilities in information security, personal information protection, and international anti-money laundering.

## Overall Performance Reaches New Heights

E.SUN Bank's overall performance reached new heights in 2017, not only being awarded the Best Bank in Taiwan from both The Asset and Global Finance, but also becoming the first in Taiwan's financial sector to gain recognition as the Best Bank in Asia-Pacific by The Asian Banker. In terms of sustainability evaluation, E.SUN Bank's business performance continues to gain international recognition. E.SUN Bank was selected into the Dow Jones Sustainability Index (DJSI) World Index for 4 consecutive years, and MSCI ESG Rating was upgraded to AA, both the best in Taiwan's financial sector. In terms of financial indicators, E.SUN Bank's net profit reached a record high at NT\$14.887 billion, EPS of NT\$1.85, ROE of 10.89%, ROA of 0.77%, and BIS of 15.01%. Asset quality is maintained at sound level with an NPL ratio of 0.23% and an NPL coverage ratio of 514.13%. In terms of credit rating, Moody's has maintained a rating of A3/P-2/Stable.

In terms of business indicators, E.SUN FHC



has total assets at NT\$1.23 trillion, total deposits at NT\$1.71 trillion, NTD current deposits at NT\$728.0 billion, and foreign currency deposits equivalent to NT\$532.7 billion; the 28.8% growth in foreign current deposits was number one in the nation. Net interest income and net commissions and fee revenues have grown steadily. Net interest income grew 8.66% to NT\$20.02 billion and net commissions and fee revenues of NT\$14.903 billion, in which revenue from wealth management fees was NT\$7.693 billion and revenue from credit card fees was NT\$4.8 billion. Furthermore, credit card value of transactions grew 12.03% to NT\$319 billion. E.SUN ranked first among private banks in SME lending, and has been the best partner of enterprises as it won the Excellent SME Credit Guarantee Partner Award for the 12th consecutive year.

As for corporate social responsibility, E.SUN Bank was ranked among the top 5% in the Corporate Governance Evaluation conducted by Taiwan Stock Exchange for 3 consecutive years, thanks to our continual efforts to improve corporate governance and functions of the Board of Directors. E.SUN Bank has been involved in environmental sustainability efforts for a long time, developing green finance and engaging in responsible lending. Green bonds in the amount of US\$60 million were issued and entirely used to support renewable energy. This made E.SUN Bank

## E.SUN Bank's Credit Ratings

| Category              | Credit Rating Agency | Long-Term Ratings | Short-Term Ratings | Outlook | Effective Date |
|-----------------------|----------------------|-------------------|--------------------|---------|----------------|
| International Ratings | Moody's              | A3                | P-2                | Stable  | 2017.12        |
|                       | S&P                  | BBB               | A-2                | Stable  | 2017.07        |
| Domestic Ratings      | Taiwan Ratings       | twAA-             | twA-1+             | Stable  | 2017.07        |

the first bank to complete pricing and the largest issuer of green bonds in Taiwan. E.SUN Bank is dedicated to charity and continues to invest in academia and education. The E.SUN Golden Seed Project has built a total of 125 E.SUN libraries, an endeavor that has resonated among over 150 thousand World Card holders. We will continue work together with our employees, customers, and partners towards a better society.

### Rapid Technological and Cross-border Developments

E.SUN Bank continues to invest in e-payment (third-party payment), e-services, and smart finance led by technological developments. In the field of e-payment (third-party payment), customers using E.SUN mobile payment can complete payments in any one of the four convenience store chains around Taiwan. Cross-border shopping services are also provided in cooperation with Japan's NTT DATA.

E.SUN Bank continues to develop digital financial services, such as e-loan, foreign currency, financial management, credit cards, and micro-business in the field of e-services, comprehensively improving user experience from mobile banking. As for smart finance, artificial intelligence semantic analysis technology is utilized to offer the E.SUN "Small-i" Robot Personal Financial Advisor. Users can use natural language to gain advice on foreign currency, mortgages, and credit cards. E.SUN Bank was once again named the Best Digital Bank in Taiwan by The Asset, and was the only bank in Taiwan's financial sector to receive The Banker's Technology Projects of the Year Award.

With regard to E.SUN Bank's presence in Asia, following the opening of the Tokyo

Branch, there are currently 25 branches in 9 countries, including the Asia-Pacific financial centers Hong Kong, Singapore, Sydney, and Tokyo, which link to the United States, China, Cambodia, Vietnam, and Myanmar. E.SUN Bank is thus able to provide financial services in Taiwan, Hong Kong, and China, building a complete financial integration platform in Asia

### Towards a New Milestone

We believe that success is founded on a good corporate culture and core values, and has three important characteristics, specifically the ability to stay concentrated over a long period of time, setting challenging goals, and pursuing a level of expertise that will set us apart from our competitors. An enterprise must be able to utilize the organization's collective wisdom and the power of its teams, formulate precise strategies and strong execution abilities, and properly implement three lines of defense, specifically risk management, regulatory compliance, and internal auditing. Only then will it be able to achieve rapid, effective, and disciplined growth in a severely competitive environment. Outlooks on the future, E.SUN Bank will continue incorporate CSR into its business strategies, remain honest and upright, pure and professional, grasp trends of FinTech and Asia's rise, and thereby create long-term value for shareholders and stakeholders. We are grateful to the various sectors that have given us support and encouragement over the years, and we will continue to work hard towards a new milestone. Best wishes for a wonderful future.



**Gary K.L. Tseng**  
Chairman of the Board



**Joseph N.C. Huang**  
President

## II. Company Profile



# 1. Introduction

1.1 Date of Establishment : January 16, 1992

Date of Opening : February 21, 1992

1.2 Company Development

E.SUN Bank was founded on January 16th 1992 and commenced its business on February 21st 1992. Under the leadership of the founder and the incumbent Chairman of E.SUN Financial Holding Company, Mr. Yong Ren Huang, a team of financial elite had a shared vision– to build the best bank in Taiwan. In the name of Yushan mountain, the highest mountain in Taiwan, E.SUN orchestrated by professional bankers and managers, they are committed to render it the most respected bank with excellent overall performance.

## Core Value and Sustainable Development

E.SUN is a highly self-disciplined company, who has upheld a long-term business philosophy of honesty and integrity, as well as fresh and professional brand image since the beginning. “Building system, cultivating talent, and developing IT” are the three main infrastructure for

E.SUN’s lasting mission. Striving towards to the goal as role model and benchmark for both financial and service industries, E.SUN actively takes part in encouraging technological development and providing professional and thoughtful service, in order to fulfill its deeply-rooted promise to employees, customers, shareholders and the land of Taiwan. From 2014 to 2017, E.SUN had been selected into Dow Jones Sustainability Emerging Market Index (DJSI) for the 4 consecutive years, setting a historical record in the Taiwanese financial industry.

## Overseas Expansion on Strong Foundation in Taiwan

E.SUN aims to establish first choice financial platform in Asia, by continuously cultivating Taiwanese market, expanding business to other Asian countries and establishing connection with

international market. Domestically, E.SUN has 138 branches to provide customer the most complete financial solution thru Omni- Channel strategy, digital innovation and FinTech application. When it comes to expanding abroad, the Bank has 25 operational sites in 9 countries and areas, connecting Asia-Pacific financial center, mainland China, Taiwan and Hong Kong, and ASEAN together. Its business has covered China, Hong Kong, Japan, Singapore, Vietnam, Cambodia, Myanmar, Australia and the United States, which intend to establish Asia’s financial service network, to deliver prominent localized service and to meet customers’ need for cross-border financial activities. A brief review of the Bank’s history is as follows:

a. On January 28, 2002, E.SUN Bank became a subsidiary of E.SUN Financial Holding Co., Ltd..

b. In 2004, E.SUN Bank absorbed Kaohsiung Business Bank, setting a world record for the fastest consolidation of information and operational systems between two financial institutions.

c. On March 18, 2011, E.SUN Bank Chunan Credit Cooperative signed contracts on general transfer and assumption. Both parties agreed that July 9 of the same year would be the record date for the Bank’s general assumption of the latter’s assets, liabilities, and operations.

d. On March 16, 2012, E.SUN Bank Chiayi Fourth Credit Cooperative signed contracts on general transfer and assumption. Both parties agreed that November 3 of the same year would be the record date for the Bank’s general assumption of the latter’s assets, liabilities, and operations.

e. The board of directors approved the investing 70% shares in Union Commercial Bank PLC., Cambodia on March 22, 2013, and the record date for the Bank’s general assumption of the latter’s assets, liabilities and operations was on the August 28, 2013. Furthermore, on December 29, 2015, E.SUN increased shareholding of UCB to 75%, on



August 25, 2017, E.SUN increased shareholding of UCB to 100%. Our Cambodia subsidiary now has in total 13 branches, providing financial service including deposits, loans and credit cards etc..

f. On January 24, 2014, the subsidiary E.SUN Bank received approval from the Board of Directors to establish a subsidiary in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone in Shenzhen of China. On January 12, 2016, the Beijing Banking Regulatory Commission officially approved the opening of E.SUN Bank (China), E.SUN Bank (China) Shenzhen Branch, E.SUN Bank (China) Dongguan Branch, and E.SUN Bank (China) Dongguan Chang an Sub-branch.

g. On November 13, 2015, the subsidiary E.SUN Bank received approval from the Board of Directors to transfer its investment to BankPro e-Service Technology Co. Ltd., acquiring a total of 7,875,000 shares (accounting for 58.33% of the paid-in capital), which were transferred on January 11, 2016.

h. The consolidation by merger of two subsidiaries, E.SUN Bank and E.SUN Insurance Brokers, was passed on August 21, 2015. E.SUN Bank would be the continuing company. The effective date was set on March 25, 2016.

i. Others: None.

### E.SUN's International Recognition

E.SUN Commercial Bank has always used a differentiated management approach that emphasizes freshness, professionalism, and services, which is why the Bank has received recognition and encouragement not only from government authorities, domestic and international professional institutions, but also mass society. During 2016 and 2017, E.

SUN had been awarded Best Domestic Bank in Taiwan presented by four professional institutions- The Banker, The Asset, Asiamoney and Global Finance, Best Managed Bank in Asia-Pacific by The Asia Banker. Mr. Joseph Huang, CEO of E.SUN, was also honored Best Leadership Achievement in Asia-Pacific by The Asia Banker. In 2017 E.SUN Commercial Bank has achieved the following honors and recognition:

#### Overall Performance

- E.SUN FHC was included in Dow Jones Sustainability Emerging Market Index for the 4th consecutive year.
- E.SUN FHC was included in Dow Jones Sustainability World Index for two times.
- E.SUN Bank received Best Managed Bank in Asia Pacific (The Asian Banker)
- Mr. Joseph Huang, President of E.SUN FHC was chosen as Best CEO Leadership Achievement in Asia Pacific (The Asian Banker)
- E.SUN Bank received Best Domestic Bank in Taiwan for the 3rd consecutive year (The Asset)
- E.SUN Bank received Best Bank in Taiwan (Global Finance)
- E.SUN Bank received Best Private Bank in Taiwan (Asiamoney)
- E.SUN Bank received Best Bank for SMEs in Taiwan (Asiamoney)
- Mr. Joseph Huang, President of E.SUN FHC was chosen as the Best CEO in Taiwan for the 2nd consecutive year (FinanceAsia)
- Ms. Magi Chen, CFO of E.SUN FHC was chosen as the Best CFO in Taiwan for the 2nd consecutive year (FinanceAsia)
- E.SUN FHC ranked No.1 in Best IR Company

- in Taiwan for the 2nd consecutive year (FinanceAsia)
- E.SUN Bank received Best Payment Bank in Taiwan (The Asian Banker)
- Mr. Joseph Huang, President of E.SUN FHC received the award of Best Chief Executive Officer Award in Asia for the 3rd consecutive year (The Asset)
- E.SUN Bank received Best Initiatives Award in Asia for the 3rd consecutive year (The Asset)
- E.SUN FHC received Most Honored Company in Taiwan (Institutional Investor)
- E.SUN FHC received Best IR Companies Developed in Taiwan (Institutional Investor)
- Mr. Joseph Huang, President of E.SUN FHC was chosen as Best CEO in Taiwan (Institutional Investor)
- Ms. Magi Chen, CFO of E.SUN FHC was chosen as the Best CFO in Taiwan (Institutional Investor)
- E.SUN Bank received the award of Highly Commended: Best Private Banking in Taiwan for the 2nd consecutive year (Timetric)
- E.SUN Bank received Best Security Initiative in Asia (Timetric)
- E.SUN Bank received Best Wealth Management Bank award in Wealth Management Bank Survey (Business Today Magazine)
- E.SUN Bank received Best Financial consultant service award in Wealth Management Bank Survey (Business Today Magazine)
- E.SUN Bank received Best customer recommend award in Wealth Management Bank Survey (Business Today Magazine)
- E.SUN Bank received SME Partner Award for the 12th year (MOEA, Credit Guarantee Fund)
- E.SUN Bank received merit award of Financing of SMEs by Domestic Banks for four times (FSC)
- E.SUN Bank received the award for e-commerce

lending of Financing of SMEs by Domestic Banks for the 2nd consecutive year (FSC)

### Digital Innovation

- E.SUN Bank received Technology Project of the Year in Payments in the world (The Banker)
- E.SUN Bank received the award of Most Innovative Digital Cost Saving Initiative in Asia for the 2nd consecutive year (Gartner)
- E.SUN Bank received the award of Best E-Bank in Taiwan for the 2nd consecutive year (The Asset)
- E.SUN Bank received the award of e-solution partner bank in Taiwan for the 3rd consecutive year (The Asset)
- E.SUN Bank received the award of Best in Treasury and working capital -SME in Taiwan for the 5th consecutive year (The Asset)
- Mr. Bruce Lee, CDO of E.SUN FHC was chosen as Leadership in Innovation in Taiwan (The Asian Banker)
- E.SUN Bank received Best Cash Management Project in Taiwan (with TutorABC) (The Asian Banker)
- E.SUN Bank received Best IT Security and Risk Management Project in Taiwan (with Dynasafe)
- E.SUN Bank received Asia/Pacific Leader in E-commerce Integration (IDC)
- E.SUN Bank received DX-Leader- Omni-Experience-Innovation in Taiwan (IDC)
- E.SUN Bank received the award of Best Card Offering in North Asia for the 2nd consecutive year (Timetric)
- E.SUN Bank received Best Bank in Community Outreach Initiative in Asia (Timetric)
- E.SUN Bank received Highly Commended : Best Mortgage Offering in Asia (Timetric)
- E.SUN Bank received Best Merchant Ecommerce Solution in Asia (Timetric)
- E.SUN Bank received Highly Commended : Best

- Loan Offering in Asia (Timetric)
- E.SUN Bank received Highly Commended: Best Mobile Point-of-Sale (mPoS) Initiative in Asia (Timetric)
- E.SUN Bank received Highly Commended : Most Innovative Branch Offering in Asia( Timetric)
- E.SUN Bank received Highly Commended : Best Graduate Employment Scheme - Retail Banking in Asia( Timetric)
- E.SUN Bank received Highly Commended : Best Debit Card Product for Asia-Pacific (Timetric)

### Sustainable Development

- E.SUN FHC ranked No.1 in financial institutions (and overall No.2 among large corporate) in the Award of Excellence in Corporate Social Responsibilities 10 times (CommonWealth Magazine)
- E.SUN FHC received Best CSR Award in Financial for the 2nd consecutive year (Global Views)
- E.SUN FHC ranked within top 5% of Corporate Governance Evaluation for the 3rd consecutive year (TWSE)
- E.SUN FHC ranked AA in MSCI ESG Leaders indexes
- E.SUN FHC received the Platinum Award for Excellence Management in Corporate Governance in Asia for the 8th consecutive year. (The Asset)
- E.SUN FHC received Best Managed Company in Taiwan for the 2nd consecutive year (FinanceAsia)
- E.SUN FHC received Best CSR in Taiwan for the 2nd consecutive year (FinanceAsia)
- E.SUN FHC received Most Committed in Corporate Governance in Taiwan for the 2nd consecutive year (FinanceAsia)
- E.SUN Bank received Best SRI (Social Impact Investing) in Taiwan (Euromoney)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best CSR for the 4th consecutive years (Wealth Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best Domestic Bank for the 3rd consecutive year (Wealth Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best Banking Product for the 4th consecutive year (Wealth Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best FinTech in Banking for the 2nd consecutive year (Wealth Magazine)
- E.SUN FHC received the Top 10 Most Sustainable Company Award for the 3rd consecutive year (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received the Gold medal in financial and insurance industry for Taiwan Top 50 Corporate Sustainability Report Awards for the 3rd consecutive year (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Innovation Development Awards for Taiwan Corporate Sustainability Awards for the 2nd consecutive year (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Transparency and Integrity Awards for Taiwan Corporate Sustainability Awards for the 2nd consecutive year (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Social Inclusion Awards for Taiwan Corporate Sustainability Awards for the 2nd consecutive year (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Talent Development Awards for Taiwan Corporate Sustainability Awards for the 2nd consecutive year (Taiwan Institute for Sustainable Energy)

- E.SUN FHC received the Gold medal in financial and insurance industry for Taiwan Top 50 Corporate Sustainability Report Awards for the 3rd consecutive year (Taiwan Institute for Sustainable Energy)
- E.SUN Bank received the certificate for ISO 14064-1 : 2006 Greenhouse Gases Emissions Verification
- E.SUN Bank received the certificate for ISO 14064-3 : 2006 Greenhouse Gases Emissions Verification
- E.SUN Bank received the certificate for ISO 14046 : 2014 Water Footprint Verification
- E.SUN 2016 CSR Report has received ISAE 3000 standard certification
- E.SUN 2016 CSR Report received the AA1000 Assurance Standards and was deemed in accordance with the Level A+ of the Global Reporting Institute GRIG4 Guidelines
- E.SUN Bank received the merit certificate for Green Procurement the 9th consecutive year (Environmental Protection Administration)
- E.SUN Bank received the merit certificate for Green Procurement by Private-Sector Enterprise and Organization for the 9th consecutive

years(Taipei City Government)

- E.SUN Bank received Bronze award of Sports Activists Awards for the 4th consecutive year (Sports Administration, Ministry of Education)

### Striving for a Future of Excellence

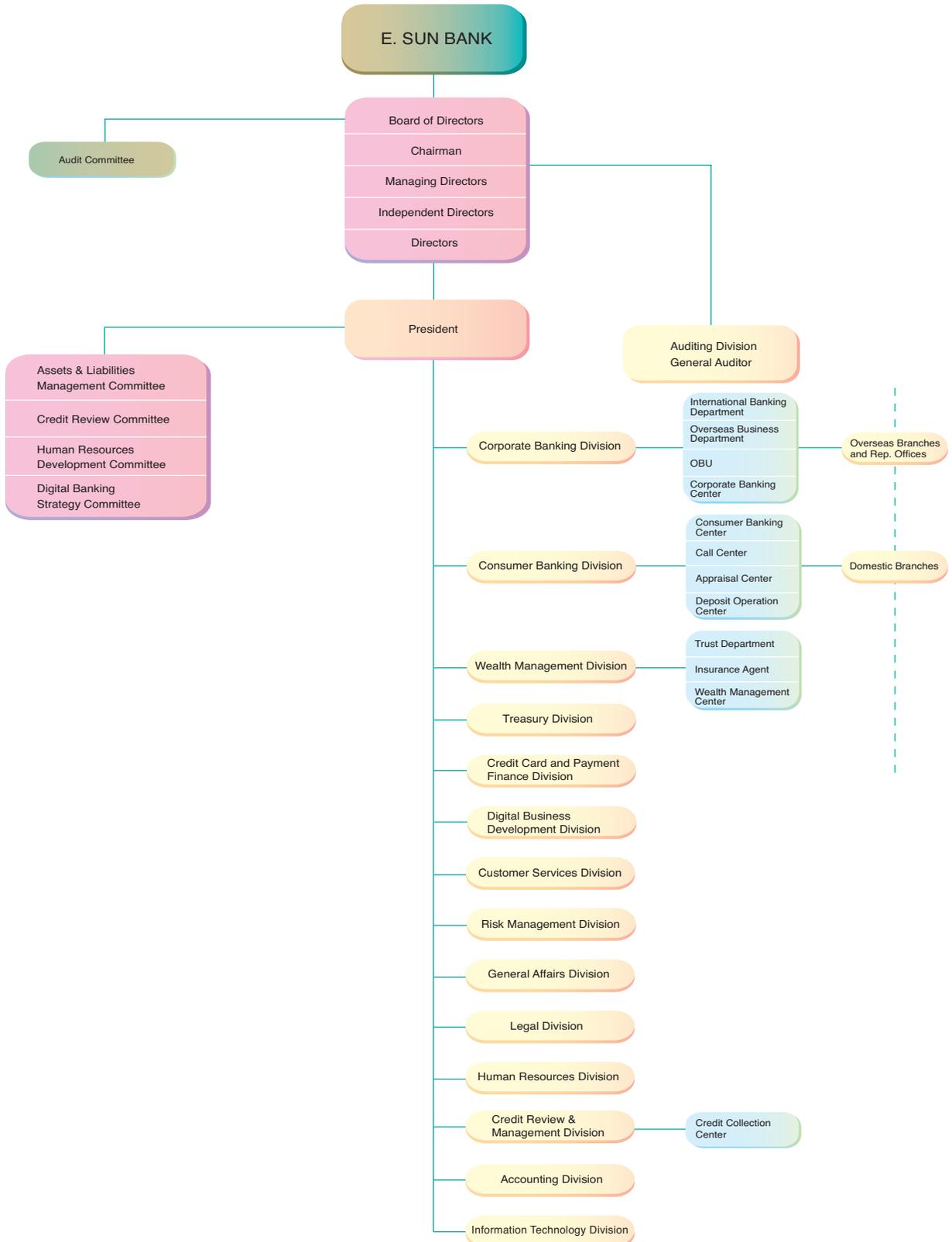
The last 25 years has been both splendid and flourishing. Looking into the future, E.SUN will continue to uphold its core spirit: “integrity in business operation is as clear as jade, accountability for customers is as big as mountain”, to stand up to an ever-changing and demanding political and economic environment, domestically and globally. By combining social responsibility and operational strategy, E.SUN will focus on the third 10-year-development main tasks- financial innovation, Taiwanese market development while expanding into Asian market, close tracking finance technological trend and the rise of Asia, information security, money laundering control, risk management, valuable extended service for customers. Only so, can E.SUN gradually achieve its long-term vision. And only so, can E.SUN make its name not just in Taiwan, but also in the world.



## III. Corporate Governance Report



# 1. Organization



## 2. Directors, Independent Directors and Management Team

### 2.1 Directors and Independent Directors

2017.12.31 Unit:1000 shares;%

| Position                                 | Nationality or place of incorporation | Representative (Name)                                                 | Gender | Date of Election | Term (years) | Date of First Elected | Shareholding When Elected |       | Shareholding in E.SUN FHC |       |                                        |       |                                  |       | Education (Experience)                                                                                                     | Current Position with Other Company                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Spouse or Relatives within the 2 <sup>nd</sup> Degree of Kinship who is a Member of the Management Team, Directors or Supervisors |      |          |
|------------------------------------------|---------------------------------------|-----------------------------------------------------------------------|--------|------------------|--------------|-----------------------|---------------------------|-------|---------------------------|-------|----------------------------------------|-------|----------------------------------|-------|----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|------|----------|
|                                          |                                       |                                                                       |        |                  |              |                       | Shares                    | Ratio | Current Shareholdings     |       | Shareholdings of the spouse and minors |       | Shareholdings under other's name |       |                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Position                                                                                                                          | Name | Relation |
|                                          |                                       |                                                                       |        |                  |              |                       |                           |       | Shares                    | Ratio | Shares                                 | Ratio | Shares                           | Ratio |                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                   |      |          |
| Chairman                                 | ROC                                   | Representative of E.SUN Financial Holding Company Gary K.L. Tseng     | M      | 2017.06.23       | 3            | 2010.5.14             | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Harvard University Master's in Public Administration, Director General of Banking Bureau, Financial Supervisory Commission | Chairman of E.SUN Bank                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | None                                                                                                                              | None | None     |
| Managing Director & President            | ROC                                   | Representative of E.SUN Financial Holding Company Joseph N.C. Huang   | M      | 2017.06.23       | 3            | 2008.6.13             | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | MBA of the City University of New York, 25 years in Financial Industry                                                     | President of E.SUN FHC, President and Managing director of E.SUN Bank, Chairman of E.SUN Bank(China), Director of Cho Pharma Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                   | None                                                                                                                              | None | None     |
| Managing Director                        | ROC                                   | Representative of E.SUN Financial Holding Company Jackson Mai         | M      | 2017.06.23       | 3            | 1991.12.16            | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Kai-Nan Commercial & Technical High School                                                                                 | Chairman of Hsin Tung Yang Co.,Ltd., Shang Yang Investment Co.,Ltd., Ding Yang Investment Co.,Ltd., Cheng Yang Investment Co.,Ltd. and Hsin Tung Yang Real Estate Broker Co.,Ltd. Director of Hsin Tung Yang Constructio Co.,Ltd. Chairman of Yuan Sheng Co.,Ltd. Director of Hua Yang Logistics Co.,Ltd., Tao Garden Hotel, Shang Yang Development Co.,Ltd. and Shang Yang International Development Co.,Ltd. Chairman of Sheng Yang Construction Co.,Ltd. and Sin Yang Investment Co.,Ltd. Managing Director of E.SUN Bank                                        | None                                                                                                                              | None | None     |
| Independent Director (Managing Director) | ROC                                   | Representative of E.SUN Financial Holding Company Chen-Chen Chang Lin | F      | 2017.06.23       | 3            | 2007.8.16             | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Master of Mathematical Statistics of University of Michigan                                                                | Independent director and Managing director or E.SUN Bank Convener of remuneration committee of E.SUN FHC.                                                                                                                                                                                                                                                                                                                                                                                                                                                           | None                                                                                                                              | None | None     |
| Independent Director                     | ROC                                   | Representative of E.SUN Financial Holding Company Chen-En Ko          | M      | 2017.06.23       | 3            | 2007.8.16             | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | PhD of Department of Accounting at University of Minnesota, Dean, College of Management, National Taiwan University        | Honorary professor of Department of Accounting at National Taiwan University Independent director of E.SUN Bank Independent director and member of Audit committee of Chang Type Industrial Co.,Ltd. Independent director and member of remuneration committee of Novatek Microelectronics Co. Director of Cho Pharma Inc. Independent director and member of remuneration committee of Everlight Electronics Co.,Ltd. Member of remuneration committee of ATEN International Co.,Ltd., Zhen Ding Tech. Co.,Ltd. and E.SUN FHC. Supervisor of Synovel Sciences Inc. | None                                                                                                                              | None | None     |

| Position             | Nationality or place of incorporation | Representative (Name)                                            | Gender | Date of Election | Term (years) | Date of First Elected             | Shareholding When Elected |       | Shareholding in E.SUN FHC |       |                                        |       |                                  |       |                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Education (Experience) | Current Position with Other Company | Spouse or Relatives within the 2 <sup>nd</sup> Degree of Kinship who is a Member of the Management Team, Directors or Supervisors |        |       |
|----------------------|---------------------------------------|------------------------------------------------------------------|--------|------------------|--------------|-----------------------------------|---------------------------|-------|---------------------------|-------|----------------------------------------|-------|----------------------------------|-------|------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|--------|-------|
|                      |                                       |                                                                  |        |                  |              |                                   | Shares                    | Ratio | Current Shareholdings     |       | Shareholdings of the spouse and minors |       | Shareholdings under other's name |       | Position                                                                                             | Name                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                        |                                     | Relation                                                                                                                          |        |       |
|                      |                                       |                                                                  |        |                  |              |                                   |                           |       | Shares                    | Ratio | Shares                                 | Ratio | Shares                           | Ratio |                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                        |                                     |                                                                                                                                   | Shares | Ratio |
| Independent Director | ROC                                   | Representative of E.SUN Financial Holding Company Ji-Ren Lee     | M      | 2017.06.23       | 3            | 2007.8.16                         | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | PhD of Business Administration, University of Illinois, USA                                          | Professor of International Business at National Taiwan University. Independent director of E.SUN Bank. Independent director and member of remuneration committee of Acer Inc. and Wow Prime Group. Member of remuneration committee of Nien Hsing Textile Co.,Ltd., Mediatek Inc. and E.SUN FHC. Independent director of Delta Electronic Inc. Director of Yu Hsin management consultant Co.,Ltd.                                                                                      | None                   | None                                | None                                                                                                                              |        |       |
| Independent Director | ROC                                   | Representative of E.SUN Financial Holding Company Hsin-I Lin     | M      | 2017.06.23       | 3            | 2008.6.13                         | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Bachelor of Department of Mechanical Engineering, National Cheng-Kung University                     | Director of Yulon Motor Co.,Ltd., China Motor Co.,Ltd., Yan Ching-Ling Industrial Development Foundation, Acer Inc. and Acer Foundation. Chairman of Guang Yuan Investment Co.,Ltd. Director of Shye Shyang Mechanical Industrial Co., Ltd. and Yulon Management Company Independent director of E.SUN Bank Member of remuneration committee of E.SUN FHC and Shihlin Electric&Engineering Corp.                                                                                       | None                   | None                                | None                                                                                                                              |        |       |
| Independent Director | ROC                                   | Representative of E.SUN Financial Holding Company Chun-Yao Huang | M      | 2017.06.23       | 3            | 2017.06.23                        | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | PhD of Department of Marketing at London Business School                                             | Professor of Department of Business Administration at National Taiwan University Independent director of E.SUN FHC Member of remuneration committee of E.SUN FHC                                                                                                                                                                                                                                                                                                                       | None                   | None                                | None                                                                                                                              |        |       |
| Director             | ROC                                   | Representative of E.SUN Financial Holding Company Rong-Chu Chen  | M      | 2017.06.23       | 3            | 2005.06.10<br>2008.11.04 Resigned | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Junan Junior High School                                                                             | Chairman of Chen Chin-Po Culture and Education Foundation, Ron Yuan Investment Co.,Ltd. and Fu Yuan Investment Co.,Ltd. Director of E.SUN Bank and Jia Tien Sia Investment Co.,Ltd.                                                                                                                                                                                                                                                                                                    | None                   | None                                | None                                                                                                                              |        |       |
| Director             | ROC                                   | Representative of E.SUN Financial Holding Company Chien-Li Wu    | M      | 2017.06.23       | 3            | 1995.4.17                         | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Chung Jung High School                                                                               | Chairman of Shang Li Car Co.,Ltd., Ruen Li Transportation Co.,Ltd., Shen Li Investment Co.,Ltd., Shang Li Transportation Co.,Ltd., Shan Ben Intl. Investment Co.,Ltd. Sun lit Investment Pty., Ltd. and Shen Li Transportation Co.,Ltd. Director of Guang Yuan Investment Co.,Ltd., Genius Technology Co.,Ltd., Keeper Technology Co.,Ltd. Tong Lit Logistics Co.,Ltd., Tong Chun Co.,Ltd., E.SUN Bank and Yung Feng Shun Construction Co.,Ltd. Supervisor of Jung Shing Wire Co.,Ltd. | None                   | None                                | None                                                                                                                              |        |       |
| Director             | ROC                                   | Representative of E.SUN Financial Holding Company Magi Chen      | F      | 2017.06.23       | 3            | 2011.07.07                        | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | MBA. The University of Tennessee, 40 years of experience in financial industry                       | Deputy president and CFO of E.SUN FHC and E.SUN Bank, Director of E.SUN Bank                                                                                                                                                                                                                                                                                                                                                                                                           | None                   | None                                | None                                                                                                                              |        |       |
| Director             | ROC                                   | Representative of E.SUN Financial Holding Company Ben Chen       | M      | 2017.06.23       | 3            | 2014.06.26                        | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Department of Business Administration, Soochow University, 28 years experience in financial industry | Deputy president of E.SUN FHC, CEO of consumer banking division and Director of E.SUN Bank                                                                                                                                                                                                                                                                                                                                                                                             | None                   | None                                | None                                                                                                                              |        |       |
| Director             | ROC                                   | Representative of E.SUN Financial Holding Company Mao-Chin Chen  | M      | 2017.06.23       | 3            | 2011.07.07                        | 8,312,100                 | 100   | 8,312,100                 | 100   | 0                                      | 0     | 0                                | 0     | Master of Economics, National Taiwan University, 26 years of experience in financial industry        | CEO of Corporate Banking Division of E.SUN Bank, CSO of E.SUN FHC and E.SUN Bank, Director of UCB                                                                                                                                                                                                                                                                                                                                                                                      | None                   | None                                | None                                                                                                                              |        |       |

## Major Shareholders of the Institutional Shareholders

2017.12.31

| Name of institutional shareholders | Major shareholders of the institutional shareholders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| E.SUN Financial Holding Co., Ltd.  | First State Investments (4.56%)<br>Ron-Yuan Investment Co., Ltd. (3.28%)<br>Chunghwa Post Co., Ltd. (3.20%)<br>E.SUN Commercial Bank Trust Fiduciary trust account (2.97%)<br>Morgan Stanley & Co. International Plc (2.75%)<br>Vanguard (1.67%)<br>Government of Singapore (1.55%)<br>Fidelity (1.41%)<br>Bank J. Safra Sarasin Ltd--Singapore Branch - For Clients' account (1.37%)<br>JPMorgan Chase Bank N.A., Taipei Branch in custody for Vanguard Total International Stock Index Fund, a series of Vanguard Star Funds (1.29%) |

## Professional Qualifications and Independent Analysis of Directors

| Name (note)                                                   | Criteria                                                                                                                                                                                                                       | Independence Criteria (note)                                                                                                                                                                                                                    |                                                                                                                        |   |   |   |   |   |   |   |   | Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director |    |   |
|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|---|-------------------------------------------------------------------------------------------------------------|----|---|
|                                                               |                                                                                                                                                                                                                                | Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience                                                                                                                            |                                                                                                                        |   |   |   |   |   |   |   |   |                                                                                                             |    |   |
|                                                               | An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company 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 Company | Have Work Experience in the Areas of Commerce, Law, Accounting, or Otherwise Necessary for the Business of the Company | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9                                                                                                           | 10 |   |
| Chairman<br>Gary K.L. Tseng                                   | ✓                                                                                                                                                                                                                              | ✓                                                                                                                                                                                                                                               | ✓                                                                                                                      | ✓ |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Managing Director<br>Jackson Mai                              |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Managing Director<br>Joseph N.C. Huang                        |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      |   |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Independent Director/Managing Director<br>Chen-Chen Chang Lin |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ | ✓ | ✓ |   |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Independent Director<br>Chen-En Ko                            | ✓                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ | ✓ | ✓ |   |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 3 |
| Independent Director<br>Ji-Ren Lee                            | ✓                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ | ✓ | ✓ |   |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 2 |
| Independent Director<br>Hsin-I Lin                            |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ | ✓ | ✓ |   |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 1 |
| Independent Director<br>Chun-Yao Huang                        | ✓                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ | ✓ | ✓ |   |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Director<br>Ron-Chu Chen                                      |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Director<br>Chien-Li Wu                                       |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      | ✓ |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Director<br>Magi Chen                                         |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      |   |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Director<br>Ben Chen                                          |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      |   |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |
| Director<br>Mao-Chin Chen                                     |                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                 | ✓                                                                                                                      |   |   | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓                                                                                                           |    | 0 |

Note: Please tick the corresponding boxes if directors have been any of the following during the two years prior to being elected or during the term of office.

- (1) Not an employee of the bank or any of its affiliates.
- (2) Not a director or supervisor of affiliates of the bank, except cases that the person serves as independent director of the bank or its parent company or its subsidiary according to the security exchange law or other local laws.
- (3) 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 Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, or officer, shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) 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 or accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof. The restriction does 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 GTSM.
- (8) Not having a material relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

## 2.2 Executive Officers



2018.03.20 Unit: 1,000 shares; %

| Department                 | Position                          | Nationality   | Name              | Gender | Date of Appointment | Shareholding in E.SUN FHC (2017.12.31) |        |                                        |        |                                  |   | Experience (Education)                  | Current Position with E.SUN and Other Company                                                                                    | Spouse or Relatives within the 2nd Degree of Kinship who is a Manager of the Company |      |          |
|----------------------------|-----------------------------------|---------------|-------------------|--------|---------------------|----------------------------------------|--------|----------------------------------------|--------|----------------------------------|---|-----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|------|----------|
|                            |                                   |               |                   |        |                     | Current Shareholdings                  |        | Shareholdings of the spouse and minors |        | Shareholdings under other's name |   |                                         |                                                                                                                                  | Position                                                                             | Name | Relation |
|                            |                                   |               |                   |        |                     | Shares                                 | %      | Shares                                 | %      | Shares                           | % |                                         |                                                                                                                                  |                                                                                      |      |          |
| Headquarter                | President                         | Taiwan R.O.C. | Joseph N.C. Huang | M      | 2011.08.01          | 11,104                                 | 0.1090 | 318                                    | 0.0031 | 0                                | 0 | President of E.SUN, FHC                 | Director, President and CSO of E.SUN FHC; Director of ESB; Director of Kellong (International) Cosmetic Ltd. and Cho Pharma Inc. | none                                                                                 | none | none     |
| Corporate Banking Division | Deputy President                  | Taiwan R.O.C. | Suka Chen         | M      | 2012.01.07          | 2,101                                  | 0.0206 | 96                                     | 0.0009 | 0                                | 0 | CEO of Consumer Banking Division, ESB   | President and Director of E.SUN Bank (China)                                                                                     | none                                                                                 | none | none     |
| Corporate Banking Division | CEO of Corporate Banking Division | Taiwan R.O.C. | Mao-Chin Chen     | M      | 2016.01.29          | 1,518                                  | 0.0149 | 1,099                                  | 0.0108 | 0                                | 0 | SEVP of Corporate Banking Division, ESB | CSO of E.SUN FHC; Director of E.SUN Bank; Director of UCB                                                                        | none                                                                                 | none | none     |
| Corporate Banking Division | SEVP                              | Taiwan R.O.C. | L.C. Lin          | M      | 2012.01.07          | 620                                    | 0.0061 | 741                                    | 0.0073 | 0                                | 0 | EVP of Corporate Banking Division, ESB  | SEVP of E.SUN FHC; Chairman of E.SUN Venture Capital                                                                             | none                                                                                 | none | none     |
| Corporate Banking Division | SEVP                              | Taiwan R.O.C. | Chi-Kan Chung     | M      | 2015.02.06          | 1,264                                  | 0.0124 | 0                                      | 0      | 0                                | 0 | EVP of Corporate Banking Division, ESB  | Director and President of UCB                                                                                                    | none                                                                                 | none | none     |
| Corporate Banking Division | SEVP                              | Taiwan R.O.C. | Joseph Shu        | M      | 2014.01.24          | 965                                    | 0.0095 | 0                                      | 0      | 0                                | 0 | SEVP of Treasury Division, ESB          | Deputy President and Director of E.SUN Bank (China)                                                                              | none                                                                                 | none | none     |
| Corporate Banking Division | SEVP                              | Taiwan R.O.C. | Cathy Kuo         | F      | 2017.01.20          | 1,527                                  | 0.0150 | 0                                      | 0      | 0                                | 0 | EVP of Corporate Banking Division, ESB  | Director of UCB                                                                                                                  | none                                                                                 | none | none     |
| Corporate Banking Division | SEVP                              | Taiwan R.O.C. | Kenneth Tsao      | M      | 2016.12.16          | 671                                    | 0.0066 | 0                                      | 0      | 0                                | 0 | General Manager of DBS                  | Deputy President of E.SUN Bank (China)                                                                                           | none                                                                                 | none | none     |
| Corporate Banking Division | EVP                               | Taiwan R.O.C. | Kuang-Yi Hung     | M      | 2017.1.20           | 639                                    | 0.0063 | 0                                      | 0      | 0                                | 0 | EVP of Corporate Banking Division, ESB  | none                                                                                                                             | none                                                                                 | none | none     |
| Corporate Banking Division | EVP                               | Taiwan R.O.C. | Da-Tan Lin        | M      | 2014.01.24          | 1,040                                  | 0.0102 | 14                                     | 0.0001 | 0                                | 0 | EVP of Corporate Banking Division, ESB  | none                                                                                                                             | none                                                                                 | none | none     |

| Department                               | Position                         | Nationality   | Name             | Gender | Date of Appointment | Shareholding in E.SUN FHC (2017.12.31) |        |                                        |         |                                  |   | Experience (Education)                                            | Current Position with E.SUN and Other Company                                                  | Spouse or Relatives within the 2nd Degree of Kinship who is a Manager of the Company |               |          |
|------------------------------------------|----------------------------------|---------------|------------------|--------|---------------------|----------------------------------------|--------|----------------------------------------|---------|----------------------------------|---|-------------------------------------------------------------------|------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|----------|
|                                          |                                  |               |                  |        |                     | Current Shareholdings                  |        | Shareholdings of the spouse and minors |         | Shareholdings under other's name |   |                                                                   |                                                                                                | Position                                                                             | Name          | Relation |
|                                          |                                  |               |                  |        |                     | Shares                                 | %      | Shares                                 | %       | Shares                           | % |                                                                   |                                                                                                |                                                                                      |               |          |
| Corporate Banking Division               | EVP                              | Taiwan R.O.C. | Yao-Bing Lin     | M      | 2016.01.22          | 1,296                                  | 0.0127 | 4                                      | 0.00004 | 0                                | 0 | EVP of Corporate Banking Division, ESB                            | Director of E.SUN Bank (China)                                                                 | none                                                                                 | none          | none     |
| Corporate Banking Division               | EVP                              | Taiwan R.O.C. | Shou-Ling Hsu    | F      | 2015.02.06          | 472                                    | 0.0046 | 0                                      | 0       | 0                                | 0 | SVP of Corporate Banking Division, ESB                            | none                                                                                           | none                                                                                 | none          | none     |
| OBU Branch                               | SVP                              | Taiwan R.O.C. | Tung-Yu Hung     | M      | 2013.02.01          | 688                                    | 0.0068 | 1                                      | 0.00001 | 0                                | 0 | SVP of Corporate Banking Division, ESB                            | Director of E.SUN Venture Capital                                                              | none                                                                                 | none          | none     |
| International Banking Department         | EVP                              | Taiwan R.O.C. | Maggy Chou       | F      | 2016.01.22          | 1,108                                  | 0.0109 | 238                                    | 0.0023  | 0                                | 0 | SVP of International Banking Department, ESB                      | Deputy President of E.SUN Bank (China)                                                         | EVP                                                                                  | Chun-Nan Tsai | Spouse   |
| Consumer Banking Division                | CEO of Consumer Banking Division | Taiwan R.O.C. | Ben Chen         | M      | 2015.02.06          | 3,902                                  | 0.0383 | 1,195                                  | 0.0117  | 0                                | 0 | Deputy President of Credit Card and Payment Finance Division, ESB | Deputy President and Director of E.SUN FHC; Director of ESB                                    | none                                                                                 | none          | none     |
| Consumer Banking Division                | SEVP                             | Taiwan R.O.C. | Wu-Ming Hsieh    | M      | 2014.01.24          | 807                                    | 0.0079 | 783                                    | 0.0077  | 0                                | 0 | EVP of Consumer Banking Division, ESB                             | SEVP of E.SUN FHC; Director of E.SUN Securities                                                | none                                                                                 | none          | none     |
| Consumer Banking Division                | SVP                              | Taiwan R.O.C. | Te-Ming Chung    | M      | 2015.02.06          | 632                                    | 0.0062 | 681                                    | 0.0067  | 0                                | 0 | EVP of Consumer Banking Division, ESB                             | Director of E.SUN Venture Capital                                                              | none                                                                                 | none          | none     |
| Consumer Banking Division                | EVP                              | Taiwan R.O.C. | Ming-Ching Dai   | F      | 2015.02.06          | 1,066                                  | 0.0105 | 34                                     | 0.0003  | 0                                | 0 | SVP of Call Center, ESB                                           | none                                                                                           | none                                                                                 | none          | none     |
| Wealth Management Division               | SEVP                             | Taiwan R.O.C. | Louis Chang      | M      | 2015.02.06          | 1,990                                  | 0.0195 | 367                                    | 0.0036  | 0                                | 0 | EVP of Wealth Management Division, ESB                            | SEVP of E.SUN FHC; Director of E.SUN Bank                                                      | none                                                                                 | none          | none     |
| Wealth Management Division               | EVP                              | Taiwan R.O.C. | Ya-Ping Hsieh    | F      | 2017.01.20          | 656                                    | 0.0064 | 0                                      | 0       | 0                                | 0 | SVP of Wealth Management Division, ESB                            | none                                                                                           | none                                                                                 | none          | none     |
| Wealth Management Division               | SVP                              | Taiwan R.O.C. | Yu-Ju Chen       | F      | 2018.01.31          | 675                                    | 0.0066 | 7                                      | 0.0001  | 0                                | 0 | VP of Wealth Management Division, ESB                             | Director of E.SUN Securities                                                                   | none                                                                                 | none          | none     |
| Trust Department                         | SVP                              | Taiwan R.O.C. | Chien-Chih Lin   | M      | 2016.01.22          | 378                                    | 0.0037 | 0                                      | 0       | 0                                | 0 | VP of Trust Department, ESB                                       | none                                                                                           | none                                                                                 | none          | none     |
| Treasury Division                        | CFO/Deputy President             | Taiwan R.O.C. | Magi Chen        | F      | 2014.01.24          | 1,916                                  | 0.0188 | 0                                      | 0       | 0                                | 0 | SEVP of Treasury Division, ESB                                    | E.SUN FHC; Director of E.SUN FHC and ESB                                                       | none                                                                                 | none          | none     |
| Treasury Division                        | EVP                              | Taiwan R.O.C. | Hsien-Hsuan Tsai | M      | 2014.01.24          | 748                                    | 0.0073 | 0                                      | 0       | 0                                | 0 | EVP of Treasury Division, ESB                                     | none                                                                                           | none                                                                                 | none          | none     |
| Treasury Division                        | EVP                              | Taiwan R.O.C. | Vincent Huang    | M      | 2015.02.06          | 1,063                                  | 0.0104 | 400                                    | 0.0039  | 0                                | 0 | SVP of Treasury Division, ESB                                     | none                                                                                           | none                                                                                 | none          | none     |
| Treasury Division                        | EVP                              | Taiwan R.O.C. | Chao-Min Chen    | M      | 2016.01.22          | 764                                    | 0.0075 | 0                                      | 0       | 0                                | 0 | SVP of Treasury Division, ESB                                     | none                                                                                           | none                                                                                 | none          | none     |
| Treasury Division                        | EVP                              | Taiwan R.O.C. | Sarah Chen       | F      | 2017.01.20          | 711                                    | 0.0070 | 0                                      | 0       | 0                                | 0 | SVP of Treasury Division, ESB                                     | none                                                                                           | none                                                                                 | none          | none     |
| Credit Card and Payment Finance Division | SEVP                             | Taiwan R.O.C. | Jung-Hua Lin     | M      | 2014.01.24          | 1,034                                  | 0.0101 | 376                                    | 0.0037  | 0                                | 0 | EVP of Credit Card and Payment Finance Division, ESB              | SEVP of E.SUN FHC; Director of EasyCard Investment Holdings Co., Ltd. and EasyCard Corporation | none                                                                                 | none          | none     |
| Credit Card and Payment Finance Division | EVP                              | Taiwan R.O.C. | Fu-Chung Huang   | M      | 2014.01.24          | 725                                    | 0.0071 | 49                                     | 0.0005  | 0                                | 0 | EVP of Credit Card and Payment Finance Division, ESB              | none                                                                                           | none                                                                                 | none          | none     |
| Credit Card and Payment Finance Division | EVP                              | Taiwan R.O.C. | Samuel Lin       | M      | 2015.02.06          | 626                                    | 0.0061 | 0                                      | 0       | 0                                | 0 | EVP of Credit Card and Payment Finance Division, ESB              | none                                                                                           | none                                                                                 | none          | none     |
| Audit Division                           | General Auditor                  | Taiwan R.O.C. | Chung-Chen Sun   | M      | 2012.04.26          | 253                                    | 0.0025 | 943                                    | 0.0093  | 0                                | 0 | EVP of Credit Review and Management Division, ESB                 | none                                                                                           | none                                                                                 | none          | none     |

| Department                            | Position                     | Nationality   | Name            | Gender | Date of Appointment | Shareholding in E.SUN FHC (2017.12.31) |        |                                        |         |                                  |   | Experience (Education)                           | Current Position with E.SUN and Other Company                                         | Spouse or Relatives within the 2nd Degree of Kinship who is a Manager of the Company |               |          |
|---------------------------------------|------------------------------|---------------|-----------------|--------|---------------------|----------------------------------------|--------|----------------------------------------|---------|----------------------------------|---|--------------------------------------------------|---------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|---------------|----------|
|                                       |                              |               |                 |        |                     | Current Shareholdings                  |        | Shareholdings of the spouse and minors |         | Shareholdings under other's name |   |                                                  |                                                                                       | Position                                                                             | Name          | Relation |
|                                       |                              |               |                 |        |                     | Shares                                 | %      | Shares                                 | %       | Shares                           | % |                                                  |                                                                                       |                                                                                      |               |          |
| Headquarter                           | Chief Compliance Officer     | Taiwan R.O.C. | Fion Ouyang     | F      | 2016.01.22          | 352                                    | 0.0035 | 0                                      | 0       | 0                                | 0 | SVP of President Office, ESB                     | Chief Compliance Officer of E.SUN FHC                                                 | none                                                                                 | none          | none     |
| Headquarter                           | Chief Marketing Officer/ EVP | Taiwan R.O.C. | Bright Wen      | M      | 2016.01.22          | 555                                    | 0.0054 | 364                                    | 0.0036  | 0                                | 0 | Vice Chief Marketing Officer of ESB              | Chief Marketing Officer of E.SUN FHC; Supervisor of E.SUN Securities                  | none                                                                                 | none          | none     |
| Legal Division                        | SVP                          | Taiwan R.O.C. | Mei-Cheng Chu   | F      | 2014.01.24          | 312                                    | 0.0031 | 0                                      | 0       | 0                                | 0 | VP of Legal Division, ESB                        | none                                                                                  | none                                                                                 | none          | none     |
| General Affairs Division              | SVP                          | Taiwan R.O.C. | Nien Chien Sung | M      | 2015.02.06          | 755                                    | 0.0074 | 0                                      | 0       | 0                                | 0 | VP of General Affairs Division, ESB              | none                                                                                  | none                                                                                 | none          | none     |
| Accounting Division                   | CAO/EVP                      | Taiwan R.O.C. | Jhy-Hung Ke     | M      | 2017.07.31          | 71                                     | 0.0007 | 0                                      | 0       | 0                                | 0 | EVP of Accounting Division, ESB                  | CAO of E.SUN FHC                                                                      | none                                                                                 | none          | none     |
| IT Division                           | CIO/SEVP                     | Taiwan R.O.C. | Wan-Li Hsieh    | M      | 2017.01.20          | 1,141                                  | 0.0112 | 64                                     | 0.0006  | 0                                | 0 | EVP of IT Division, ESB                          | CIO of E.SUN FHC                                                                      | none                                                                                 | none          | none     |
| IT Division                           | Vice CIO/ EVP                | Taiwan R.O.C. | Po-Hsuan Hsu    | F      | 2016.01.22          | 1,431                                  | 0.0141 | 523                                    | 0.0051  | 0                                | 0 | EVP of IT Division, ESB                          | Supervisor of E.SUN Bank (China); Director of Bankpro e-Services Technology Co., Ltd. | none                                                                                 | none          | none     |
| IT Division                           | EVP                          | Taiwan R.O.C. | Jeff Liu        | M      | 2017.01.20          | 440                                    | 0.0043 | 3                                      | 0.00002 | 0                                | 0 | SVP of IT Division, ESB                          | none                                                                                  | SVP                                                                                  | Shi Hong Feng | spouse   |
| IT Division                           | EVP                          | Taiwan R.O.C. | Jeff Kuo        | M      | 2015.07.01          | 225                                    | 0.0022 | 0                                      | 0       | 0                                | 0 | EVP of IT Division, ESB                          | none                                                                                  | none                                                                                 | none          | none     |
| Information Security Division         | EVP                          | Taiwan R.O.C. | Chun Jung Chen  | M      | 2018.01.31          | 619                                    | 0.0061 | 0                                      | 0       | 0                                | 0 | EVP of Information Security Division             | none                                                                                  | none                                                                                 | none          | none     |
| Digital Business Development Division | Chief Digital Officer/ SEVP  | Taiwan R.O.C. | Bruce Lee       | M      | 2017.01.20          | 1,402                                  | 0.0138 | 99                                     | 0.0010  | 0                                | 0 | EVP of President Office, ESB                     | Director of Bankpro e-Services Technology Co., Ltd.                                   | none                                                                                 | none          | none     |
| Digital Business Development Division | EVP                          | Taiwan R.O.C. | Mei-Ling Liu    | F      | 2016.01.22          | 772                                    | 0.0076 | 172                                    | 0.0017  | 0                                | 0 | EVP of Digital Business Development Division     | Director of Cash Pay; Supervisor of TWMP                                              | none                                                                                 | none          | none     |
| HR Division                           | Head of HR/ SEVP             | Taiwan R.O.C. | J.C. Wang       | M      | 2012.01.07          | 2,644                                  | 0.0260 | 1,382                                  | 0.0136  | 0                                | 0 | SEVP of HR Division, ESB                         | Head of HR of E.SUN FHC; Supervisor of Shan Meng Investment Co., Ltd.                 | none                                                                                 | none          | none     |
| Risk Management Division              | CRO/EVP                      | Taiwan R.O.C. | Oliver Hsieh    | M      | 2017.01.20          | 1,369                                  | 0.0134 | 0                                      | 0       | 0                                | 0 | EVP of Risk Management Division, ESB             | CRO of E.SUN FHC                                                                      | none                                                                                 | none          | none     |
| Credit Review and Management Division | SVP                          | Taiwan R.O.C. | Hsiao-Lan Lin   | M      | 2016.01.22          | 554                                    | 0.0054 | 467                                    | 0.0046  | 0                                | 0 | VP of Credit Review and Management Division, ESB | none                                                                                  | none                                                                                 | none          | none     |

## 2.3 Renumeration of Directors (including Independent Directors), President and Senior Executive Vice President

### (1) Remuneration of Directors (including Independent Directors)

2017.12.31 Unit: NT\$ thousands

| Title             | Name | Director Remuneration |                                                    |                   |                                                    |                        |                                                    |               |                                                    | Relevant remuneration received by directors who are also employees |                                                    |                                    |                                                    |                   |                                                    | Ratio of total compensation (A+B+C+D+E+F+G) to net income (%) |       | Compensation paid to directors from an invested company other than the Company's subsidiary |                                   |       |             |                                                    |
|-------------------|------|-----------------------|----------------------------------------------------|-------------------|----------------------------------------------------|------------------------|----------------------------------------------------|---------------|----------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------|------------------------------------|----------------------------------------------------|-------------------|----------------------------------------------------|---------------------------------------------------------------|-------|---------------------------------------------------------------------------------------------|-----------------------------------|-------|-------------|----------------------------------------------------|
|                   |      | Base Compensation (A) |                                                    | Severance Pay (B) |                                                    | Bonus to Directors (C) |                                                    | Allowance (D) |                                                    | Ratio of total remuneration (A+B+C+D) to net income (%)            |                                                    | Salary, Bonuses, and Allowance (E) |                                                    | Severance Pay (F) |                                                    |                                                               |       |                                                                                             | Profit Sharing-Employee Bonus (G) |       |             |                                                    |
|                   |      | The company           | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | The company            | Companies in the consolidated financial statements | The company   | Companies in the consolidated financial statements | The company                                                        | Companies in the consolidated financial statements | The company                        | Companies in the consolidated financial statements | The company       | Companies in the consolidated financial statements | Cash                                                          | Stock |                                                                                             | Cash                              | Stock | The company | Companies in the consolidated financial statements |
| List as following |      | 8,711                 | 10,597                                             | 0                 | 0                                                  | 86,000                 | 86,000                                             | 1,140         | 1,140                                              | 0.64%                                                              | 0.66%                                              | 33,237                             | 33,237                                             | 0                 | 0                                                  | 3,367                                                         | 0     | 3,367                                                                                       | 0                                 | 0.89% | 0.90%       | None                                               |

\* E.SUN FHC Representatives : Chairman Gary K.L. Tseng; Managing Directors: Jackson Mai, Chen-Chen Chang Lin ; Directors: Joseph N.C. Huang, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Chun-Yao Huang (2017.6.23 Newly elected), Ron-Chu Chen, Chien-Li Wu, Magi Chen, Ben Chen, Mao-Chin Chen, Louis Chang(2017.6.23 卸任) .

\* All Bonuses to Directors in Director Remuneration has been paid to E.SUN Financial Holding Company.

## Remuneration Bracket

Unit: NT\$ thousands

| Bracket                       | Name of Directors                                                                                                                             |                                                                                                                                               |                                                                                                                                    |                                                                                                                                    |
|-------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|
|                               | Total of (A+B+C+D)                                                                                                                            |                                                                                                                                               | Total of (A+B+C+D+E+F+G)                                                                                                           |                                                                                                                                    |
|                               | The Company                                                                                                                                   | Companies in the consolidated financial statements (H)                                                                                        | The Company                                                                                                                        | Companies in the financial statements(I)                                                                                           |
| Under NT\$ 2,000,000          | Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Chun-Yao Huang, Ron-Chu Chen, Chien-Li Wu, Magi Chen | Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Chun-Yao Huang, Ron-Chu Chen, Chien-Li Wu, Magi Chen | Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Chun-Yao Huang, Ron-Chu Chen, Chien-Li Wu | Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Ron-Chu Chen, Chien-Li Wu, Chun-Yao Huang |
| NT\$ 2,000,000 ~ 5,000,000    | Ben Chen, Mao-Chin Chen, Louis Chang                                                                                                          | Ben Chen, Mao-Chin Chen, Louis Chang                                                                                                          |                                                                                                                                    |                                                                                                                                    |
| NT\$ 5,000,000 ~ 10,000,000   |                                                                                                                                               |                                                                                                                                               | Louis Chang                                                                                                                        | Louis Chang                                                                                                                        |
| NT\$ 10,000,000 ~ 15,000,000  |                                                                                                                                               |                                                                                                                                               | Mao-Chin Chen, Magi Chen, Ben Chen                                                                                                 | Mao-Chin Chen, Magi Chen, Ben Chen                                                                                                 |
| NT\$ 15,000,000 ~ 30,000,000  | Gary K.L. Tseng                                                                                                                               | Gary K.L. Tseng                                                                                                                               | Gary K.L. Tseng                                                                                                                    | Gary K.L. Tseng                                                                                                                    |
| NT\$ 30,000,000 ~ 50,000,000  |                                                                                                                                               |                                                                                                                                               |                                                                                                                                    |                                                                                                                                    |
| NT\$ 50,000,000 ~ 100,000,000 | E.SUN FHC                                                                                                                                     | E.SUN FHC                                                                                                                                     | E.SUN FHC                                                                                                                          | E.SUN FHC                                                                                                                          |
| Over NT\$ 100,000,000         |                                                                                                                                               |                                                                                                                                               |                                                                                                                                    |                                                                                                                                    |
| Total                         | 95,851                                                                                                                                        | 97,737                                                                                                                                        | 132,455                                                                                                                            | 134,341                                                                                                                            |

\* The percentage of total profits distributed to directors as remuneration is based on regulations set forth in Article 40 of the Company's Articles of Incorporation. The ratio and adjustment of remuneration for the chairman and directors are based on regulations set forth in Article 22. The remuneration reflects the level of participation in and contribution to the company's operations. At the same time, industry standards are considered. The board is authorized to decide the level of this compensation.

(2) Comparison of Remuneration and the ratio of total Remuneration paid by the Company and by all companies included in the consolidated financial statements for the most recent two years to Directors, Independent Directors, President and Senior Executive Vice Presidents of the Company, to the net profit after tax

Unit: NT\$ thousands

| Year<br>Title      | 2017           |         |                               |                                                    |         |                               | 2016           |         |                               |                                                    |         |                               |
|--------------------|----------------|---------|-------------------------------|----------------------------------------------------|---------|-------------------------------|----------------|---------|-------------------------------|----------------------------------------------------|---------|-------------------------------|
|                    | The Company    |         |                               | Companies in the Consolidated Financial Statements |         |                               | The Company    |         |                               | Companies in the Consolidated Financial Statements |         |                               |
|                    | No. of persons | Amount  | Ratio to Net profit after tax | No. of persons                                     | Amount  | Ratio to Net profit after tax | No. of persons | Amount  | Ratio to Net profit after tax | No. of persons                                     | Amount  | Ratio to Net profit after tax |
| Directors          | 14             | 132,455 | 0.89%                         | 14                                                 | 134,341 | 0.90%                         | 13             | 122,963 | 0.92%                         | 13                                                 | 122,963 | 0.92%                         |
| President and SEVP | 22             | 110,211 | 0.74%                         | 22                                                 | 132,551 | 0.89%                         | 17             | 79,470  | 0.59%                         | 17                                                 | 92,372  | 0.69%                         |

Note: 2017 Bank Net Profit after tax was 14,886,870 thousand dollars ; 2016 Bank Net Profit after tax was 13,411,351 thousand dollars.

(3) The Policies, Standards, and Portfolios for the Payment of Remuneration, the Procedures for Determining Remuneration, and the Correlation with Business Performance:

- a. The percentage of total profits distributed to directors as remuneration is based on regulations set forth in Article 40 of the Company's Articles of Incorporation. The ratio and adjustment of remuneration for the chairman and directors are based on regulations set forth in Article 22. The remuneration reflects the level of participation in and contribution to the company's operations. At the same time, industry standards are considered. The board is authorized to decide the level of this compensation.
- b. The performance review system and remuneration framework for high-level managers is first screened by Remuneration Committee of E.SUN FHC, following which the board makes a final decision. Salaries of managers should reflect their professional experience, and the Company's, counterparts' and market standards and be given in accordance with E.SUN FHC Management Salary Payment Policy. The company will periodically evaluate the linkage of individual performance, profitability, operation, potential risk and salary to incentivate managers to achieve the set goal of the company which enables a manager's compensation to be closely related to operational performance. A manager's bonus will be impacted if a major risk event occurs that impacts the Company's reputation, inappropriate internal management is seen, or other abuses are documented. At the same time, the Company will carry out stress tests and scenario analysis to evaluate possible risk in the future, and the Risk Management Committee each quarter will report to the board and Auditing Committee on the level of such risk.

(4) Name of Managers who received dividend/bonus and the distribution thereof

unit : NT\$thousands

| Title                             | Name              | Stock Amount | Cash Amount | Amount | Ratio of Amount to Net profit after tax (%) |
|-----------------------------------|-------------------|--------------|-------------|--------|---------------------------------------------|
| President                         | Joseph N.C. Huang | 0            | 8,852       | 8,852  | 0.06%                                       |
| CEO of Corporate Banking Division | Mao-Chin Chen     |              |             |        |                                             |
| Deputy President                  | Suka Chen         |              |             |        |                                             |
| Deputy President                  | Magi Chen         |              |             |        |                                             |
| CEO of Consumer Banking Division  | Ben Chen          |              |             |        |                                             |
| SEVP                              | J.C. Wang         |              |             |        |                                             |
| SEVP                              | L.C. Lin          |              |             |        |                                             |
| SEVP                              | Wu-Ming Hsieh     |              |             |        |                                             |
| SEVP                              | Louis Chang       |              |             |        |                                             |
| SEVP                              | Tony Wan          |              |             |        |                                             |
| SEVP                              | Wen-Cheng Cheng   |              |             |        |                                             |
| SEVP                              | Joseph Shu        |              |             |        |                                             |
| SEVP                              | Kenneth Tsao      |              |             |        |                                             |
| SEVP                              | Jung-Hua Lin      |              |             |        |                                             |
| SEVP                              | Yu-Kai Huang      |              |             |        |                                             |
| SEVP                              | Chi-Kan Chung     |              |             |        |                                             |
| SEVP                              | Cathy Kuo         |              |             |        |                                             |
| SEVP                              | Wan-Li Hsieh      |              |             |        |                                             |
| SEVP                              | Cheng-Kuo Li      |              |             |        |                                             |
| SEVP                              | Oliver Hsieh      |              |             |        |                                             |

## 3. Implementation of Corporate Governance

### 3.1 Board of Directors

A total of 12 (A) meeting of the board of directors were held in the previous period. Director and supervisor attendance was as follows:

| Title                                    | Name                                         | Attendance in Person(B) | By Proxy | Attendance rate (%) [ B / A ] | Remarks         |
|------------------------------------------|----------------------------------------------|-------------------------|----------|-------------------------------|-----------------|
| Chairman                                 | E.SUN FHC representative Gary K.L. Tseng     | 12                      | 0        | 100                           | Re-elected      |
| Managing Director                        | E.SUN FHC representative Jackson Mai         | 12                      | 0        | 100                           | Re-elected      |
| Independent Director (Managing Director) | E.SUN FHC representative Chen-Chen Chang Lin | 12                      | 0        | 100                           | Re-elected      |
| Independent Director                     | E.SUN FHC representative Chen-En Ko          | 12                      | 0        | 100                           | Re-elected      |
| Independent Director                     | E.SUN FHC representative Ji-Ren Lee          | 12                      | 0        | 100                           | Re-elected      |
| Independent Director                     | E.SUN FHC representative Hsin-I Lin          | 12                      | 0        | 100                           | Re-elected      |
| Independent Director                     | E.SUN FHC representative Chun-Yao Huang      | 6                       | 0        | 100                           | Newly appointed |
| Director                                 | E.SUN FHC representative Joseph N.C.Huang    | 12                      | 0        | 100                           | Re-elected      |
| Director                                 | E.SUN FHC representative Ron-Chu Chen        | 9                       | 3        | 75                            | Re-elected      |
| Director                                 | E.SUN FHC representative Chien-Li Wu         | 12                      | 0        | 100                           | Re-elected      |
| Director                                 | E.SUN FHC representative Magi Chen           | 12                      | 0        | 100                           | Re-elected      |
| Director                                 | E.SUN FHC representative Ben Chen            | 12                      | 0        | 100                           | Re-elected      |
| Director                                 | E.SUN FHC representative Mao-Chin Chen       | 12                      | 0        | 100                           | Re-elected      |
| Director                                 | E.SUN FHC representative Louis Chang         | 6                       | 0        | 100                           | Retired         |

Other mentionable items:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected to by Independent Directors or subject to qualified opinion and recorded or declared in writing, the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion should be specified: None

2. Practice of Directors' avoidance of motions in conflict of interest:

| Director Name                                                       | Content of Motion                                                                     | Cause of Avoidance                                                                      | Voting                                                                                                                                                                                          |
|---------------------------------------------------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Joseph N.C. Huang, Magi Chen, Ben Chen, Mao Chin Chen, Louise Chang | Motion on remuneration adjustment to senior managers                                  | Motion concerning personal interests of the directors                                   | Joseph N.C. Huang excused himself after reporting the agenda to SVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin refrained from participation in discussions and voting |
| Magi Chen, Ben Chen, Mao Chin Chen, Louise Chang                    | Making of 2016 annual bonus and Long Term Incentive Remuneration Practice             | Motion concerning personal interests of the directors                                   | Joseph N.C. Huang excused himself after reporting the agenda to SVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin refrained from participation in discussions and voting |
| Joseph N.C. Huan                                                    | Motion on deciding on an interbank lending quota for the Mainland China's subsidiary  | Motion concerning a business in which the director serves as a responsible person       | Refrained from participation in discussions and voting                                                                                                                                          |
| Mao Chin Chen                                                       | Subscription of UCB's rights offering                                                 | Motion concerning a business in which the director serves as a responsible person       | Refrained from participation in discussions and voting                                                                                                                                          |
| Ron Chiu Chen                                                       | Lending to Nien Hsing Textile Co., Ltd.                                               | Motion concerning a business of which the responsible person is related to the director | Refrained from participation in discussions and voting                                                                                                                                          |
| Mao Chin Chen                                                       | Appointment of the new board of directors and independent directors of UCB            | Motion concerning a business in which the director serves as a responsible person       | Refrained from participation in discussions and voting                                                                                                                                          |
| Mao Chin Chen                                                       | Lending to UCB                                                                        | Motion concerning personal interests of the directors                                   | Refrained from participation in discussions and voting                                                                                                                                          |
| Joseph N.C. Huang, Magi Chen, Ben Chen, Mao Chin Chen               | Motion on 2016 employees remuneration                                                 | Motion concerning personal interests of the directors                                   | Joseph N.C. Huang excused himself after reporting the agenda to SVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin refrained from participation in discussions and voting |
| Joseph N.C. Huang, Magi Chen, Ben Chen, Mao Chin Chen               | Motion on remuneration adjustment to senior managers                                  | Motion concerning personal interests of the directors                                   | Joseph N.C. Huang excused himself after reporting the agenda to SVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin refrained from participation in discussions and voting |
| Magi Chen, Ben Chen, Mao Chin Chen, Louise Chang                    | Making of 2017 annual bonus and Long Term Incentive Remuneration Practice             | Motion concerning personal interests of the directors                                   | Joseph N.C. Huang excused himself after reporting the agenda to SVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin refrained from participation in discussions and voting |
| Joseph N.C. Huang                                                   | The motion is related to making 30 million donation to the E.SUN Volunteer Foundation | Motion concerning a foundation chaired by the director                                  | Refrained from participation in discussions and voting                                                                                                                                          |

3. Measures taken to strengthen the functionality of the Board: The Board of Directors has established Audit Committee, Corporate Governance and Nomination Committee, Compensation Committee and Board Strategy Development Committee in June, 2008 to assist the Board in carrying out its various duties.

The evaluation of Board performance is planned to be delegated to external independent institution for execution in 2017.

### 3.2 Audit Committee

A total of 9(A) Audit Committee meetings were held in the previous period. The attendances of Independent Directors were as follows:

| Title                | Name                | Attendance in Person(B) | By Proxy | Attendance rate (%) [ B / A ] | Remarks         |
|----------------------|---------------------|-------------------------|----------|-------------------------------|-----------------|
| Independent Director | Chen-En Ko          | 9                       | 0        | 100                           | Re-elected      |
| Independent Director | Ji-Ren Lee          | 9                       | 0        | 100                           | Re-elected      |
| Independent Director | Chen-Chen Chang Lin | 9                       | 0        | 100                           | Re-elected      |
| Independent Director | Hsin-I Lin          | 9                       | 0        | 100                           | Re-elected      |
| Independent Director | Chun-Yao Huang      | 5                       | 0        | 100                           | Newly appointed |

Other mentionable items:

1. If there are the circumstances referred to in Article 14-5 of Securities and Exchange Act and resolutions which were not approved by the Audit Committee but were approved by two thirds or more of all directors, the dates of meetings, sessions, contents of motions, resolutions of Audit Committee and the Company's response to Audit Committee's opinion should be specified:

| Date       | Terms                                                | Agenda                                                                              | Resolution                                                                                                                                                                                                                                                            |
|------------|------------------------------------------------------|-------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2017.01.06 | 21 <sup>th</sup> meeting of the 9 <sup>th</sup> term | Increment of interbank line of credit for E.SUN China                               | Audit Committee:<br>Approved by committees attending the meeting and will be proposed to the Board of Directors.<br><br>The Board of Directors:<br>Approved by Directors attending the meeting. Some directors are excused from the meeting due to personal interest. |
|            |                                                      | Capital injection to UCB                                                            |                                                                                                                                                                                                                                                                       |
|            |                                                      | Loan NienHsingTextile                                                               |                                                                                                                                                                                                                                                                       |
| 2017.03.01 | 22 <sup>th</sup> meeting of the 9 <sup>th</sup> term | Financial statement (standalone and consolidated) of 2016                           |                                                                                                                                                                                                                                                                       |
|            |                                                      | Statement of Internal Control System for the bank's cooperating insurance brokerage |                                                                                                                                                                                                                                                                       |
|            |                                                      | Statement of Internal control System of 2016                                        |                                                                                                                                                                                                                                                                       |
| 2017.03.24 | 23 <sup>th</sup> meeting of the 9 <sup>th</sup> term | Mandate of CPA                                                                      |                                                                                                                                                                                                                                                                       |
|            |                                                      | Amendment of Acquisition or Disposal of Properties                                  |                                                                                                                                                                                                                                                                       |
|            |                                                      | Amendment of Practice for Stock Affairs                                             |                                                                                                                                                                                                                                                                       |
|            |                                                      | Acquisition of land in LingYia, Kaohsiung                                           |                                                                                                                                                                                                                                                                       |
|            |                                                      | Amendment of Internal Control System                                                |                                                                                                                                                                                                                                                                       |
| 2017.04.28 | 25 <sup>th</sup> meeting of the 9 <sup>th</sup> term | New rights offering                                                                 |                                                                                                                                                                                                                                                                       |
|            |                                                      | Amendment of Internal Control System                                                |                                                                                                                                                                                                                                                                       |
|            |                                                      | Lending to UCB P.L.C.                                                               |                                                                                                                                                                                                                                                                       |
| 2017.06.23 | 25 <sup>th</sup> meeting of the 9 <sup>th</sup> term | Nomination of Chief Accounting Officer                                              |                                                                                                                                                                                                                                                                       |
| 2017.08.11 | 3 <sup>th</sup> meeting of the 10 <sup>th</sup> term | Half year financial statement (consolidated or standalone) 2016                     |                                                                                                                                                                                                                                                                       |
|            |                                                      | Lending to UCB P.L.C.                                                               |                                                                                                                                                                                                                                                                       |
| 2017.11.02 | 4 <sup>th</sup> meeting of the 10 <sup>th</sup> term | Interbank line of credit of E.SUN China                                             |                                                                                                                                                                                                                                                                       |
|            |                                                      | Statement of Effectiveness on AML and anti-terror-financing System 2017             |                                                                                                                                                                                                                                                                       |
|            |                                                      | Acquisition of real estate and its affiliated parking space in Taichung City        |                                                                                                                                                                                                                                                                       |
|            |                                                      | Announcement of disposal of real estate in Kaohsiung City                           |                                                                                                                                                                                                                                                                       |
| 2018.01.19 | 5 <sup>th</sup> meeting of the 10 <sup>th</sup> term | 30 million donation to E.SUN Volunteer Foundation                                   |                                                                                                                                                                                                                                                                       |
|            |                                                      | Loan to NienHsing Textile Co. Ltd                                                   |                                                                                                                                                                                                                                                                       |
| 2018.03.16 | 6 <sup>th</sup> meeting of the 10 <sup>th</sup> term | Financial Statement (consolidated and standalone) 2017                              |                                                                                                                                                                                                                                                                       |
|            |                                                      | Capital injection by retained earning                                               |                                                                                                                                                                                                                                                                       |
|            |                                                      | Amendment of Accounting System                                                      |                                                                                                                                                                                                                                                                       |
|            |                                                      | Statement of AML and anti-terror-financing System 2017                              |                                                                                                                                                                                                                                                                       |
|            |                                                      | Statement of Internal Control System 2017                                           |                                                                                                                                                                                                                                                                       |

2. If there is Independent Directors' avoidance of motions in conflict of interest, the Independent Directors' names, contents of motions, causes for avoidance and voting should be specified:

-Practice of Directors' avoidance of motions in conflict of interest: None.

3. Communications between the independent directors, the Company's Chief Internal Auditor and CPAs (e.g. the items, methods and results of audits of corporate finance or operations, etc.)

| Date       | Method           | Object of Communication                    | Subject of Communication                                                                                | Result                             |
|------------|------------------|--------------------------------------------|---------------------------------------------------------------------------------------------------------|------------------------------------|
| 2017.01.04 | Audit Committee  | Appointed accountant of E.SUN Bank         | CPA report of the result for auditing of 2016 Financial Statements                                      | Acknowledged                       |
|            |                  | General Auditor of E.SUN Bank              | Report of the 2016 auditing work of E.SUN                                                               | Acknowledged                       |
| 2017.03.01 | Audit Committee  | Appointed accountant of E.SUN Bank         | CPA report of the result for auditing of 2016 Financial Statements                                      | Acknowledged                       |
| 2017.03.22 | Audit Committee  | General Auditor of E.SUN Bank              | CPA report of the 2017 Q1 auditing work of E.SUN                                                        | Acknowledged                       |
| 2017.04.26 | Audit Committee  | General Auditor of E.SUN Bank              | CPA report of the 2017 Q1 auditing work of E.SUN                                                        | Acknowledged                       |
| 2017.08.08 | Audit Committee  | Appointed accountant of E.SUN Bank         | CPA report of the 2017 1H auditing work of E.SUN                                                        | Acknowledged                       |
|            |                  | General Auditor and auditors of E.SUN Bank | Report of the 2017 1H auditing work of E.SUN                                                            | Acknowledged                       |
| 2017.11.01 | Committee        | Appointed accountant of E.SUN Bank         | Report of the 2016 Q3 auditing work of E.SUN                                                            | Acknowledged                       |
|            |                  |                                            | Report of the 2017 auditing work of E.SUN                                                               | Reported to the Board              |
|            |                  |                                            | CPA report the 2018 auditing plan of E.SUN                                                              | Executed by the Board              |
| 2017.11.01 | Audit Conference | General Auditor and auditors of E.SUN Bank | Discussion related to internal auditing work of E.SUN Bank                                              | Executed with the suggested matter |
| 2017.12.13 | Meeting          | Appointed accountant of E.SUN Bank         | Report of the 2017 auditing work of E.SUN<br>Discussion related to internal auditing work of E.SUN Bank | Acknowledged                       |
| 2018.01.16 | Audit Committee  | Appointed accountant of E.SUN Bank         | CPA report the 2017 auditing plan of E.SUN                                                              | Acknowledged                       |
|            |                  | General Auditor of E.SUN Bank              | Report of the 2017 auditing work of E.SUN                                                               | Acknowledged                       |
| 2018.03.08 | Audit Committee  | Appointed accountant of E.SUN Bank         | CPA report of the result for auditing of 2017 Financial Statements                                      | Acknowledged                       |

### 3.3 Corporate Governance Execution Status and Deviations from “Bank Governance Best-Practice Principles”:

| Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | State of Operation |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Deviations from “Bank Corporate Governance Best Practice Principles and reasons                                                                                                                                                                                                                                                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Y                  | N | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                |
| <p>1. Shareholding Structure and Shareholders’ Equity</p> <p>(1) Does the Bank institute a set of internal operational procedures for handling shareholder proposals, doubts, disputes, and suits, as well as act in accordance with the said procedures?</p> <p>(2) Does the Bank have access to the identity of major shareholders who have actual control over the Bank as well as that of their ultimate control persons?</p> <p>(3) Does the Bank establish and implement risk control and management as well as firewall mechanisms for its dealings with affiliated businesses?</p> | V                  |   | <p>(1) E.SUN FHC is the sole shareholder of the Bank. The FHC’s shareholder can file opinions via the FHC’s Stock service department or customer service division. Qualified persons will then handle these issues. Avenue for communication are quite smooth.</p> <p>(2) The Bank is a wholly owned subsidiary of E.SUN FHC.</p> <p>(3) Risk management committee has been set up to oversee the execution of risk management policy and culture. In addition, E.SUN risk management rules has been established. In terms of trading with interested parties, the Bank has adopted a number of internal regulations: Policy on Trading with Interested Parties, Operational Guidelines for Prevention of Insider Trading at Investees, Operational Guidelines for Addressing Common Interests of E.SUN Bank and Investees, Guidelines for Arm’s-Length Transactions Between E.SUN Bank and Investees, and Internal Operational Regulations for E.SUN FHC and Subsidiaries to Comply With Article 45 of the Financial Holding Company Act.</p>                                                                                                                                                                                                                                                                                                                                                                                                                       | No Difference                                                                                                                                                                                                                                                                                                                  |
| <p>2. Duties and formation of Board of Directors</p> <p>(1) Besides setting up the Compensation Committee and Audit Committee according to law, does the Bank voluntarily set up other functional committees?</p> <p>(2) Does the Bank evaluate the independence of its CPAs on a regular basis?</p>                                                                                                                                                                                                                                                                                       |                    | V | <p>(1) E.SUN FHC has also established Compensation Committee, Corporate Governance and Nomination Committee, Board Strategy Development Committee and Corporate Social Responsibility Committee.</p> <p>(2) Pursuant to Article 29 of the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, the Bank engages professional, responsible, and independent CPAs to audit its finances and internal control on a regular basis. Meanwhile, the Bank’s Audit Committee and Board of Directors are called upon to evaluate the suitability, independence, and fair pricing of the engaged CPA firm every six months (in the first and third quarters). For its part, the CPA firm is supposed to present a statement of independence (specifying that the CPAs responsible for audit and their spouses as well as dependent relatives have no major financial interests at stake involving the Company, either directly or indirectly, or have undermined independence in any other way). E.SUN Bank reviews every year in Q1 that its Auditing Certified Public Accountant is not a related party under Article 45 of Financial Holding Company Act of Taiwan, the interest rate offers in lending and depository business has not been surpassing those of E.SUN Bank’s general customers, the Auditing Certified Public Accountant has not held the stocks of E.SUN Bank’s parent company, E.SUN FHC to ensure E.SUN bank has complied.</p> | Article 36-1 of the Corporate Governance Best-Practice Principles for Banks makes it clear that banks are supposed to establish their compensation committees. Nevertheless, as a wholly owned subsidiary of E.SUN FHC, the Bank leaves the overall performance evaluation to the Compensation Committee of the parent company |
| <p>3. Has the Bank established unit or persons responsible for corporate governance affairs (including but not limited to preparation of materials for directors and supervisor’s execution, director’s meeting and AGM, corporate registration, an meeting minutes of director’s meetings and AGM)?</p>                                                                                                                                                                                                                                                                                   | V                  |   | <p>The Legal Affairs Department is responsible for corporate governance related matters and is supervised by Chief Brand Officer. Corporate governance includes the matters below:</p> <ol style="list-style-type: none"> <li>1. Corporate registration and amendment of registration</li> <li>2. Affairs relating directors meeting minutes and assistance of legal compliance.</li> <li>3. Production of director meeting minutes</li> <li>4. Providing the most up to date laws relating to execution of business for directors and independent directors.</li> <li>5. Matters specified by article of incorporation or agreement.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | No Difference                                                                                                                                                                                                                                                                                                                  |
| <p>4. Has the Bank established avenues of communication with interested parties?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | V                  |   | <p>The Bank has a special division in charge of building up and maintaining list of related party and related communication. The Bank’s customers can express their opinions through customer service units. Employee disputes will be handled by human resource division. The Bank and the related parties have a smooth communication channel.</p> <p>On the website of the Bank’s parent company E.SUN FHC, there is a special section devoted to corporate social responsibility that is designed not only for CSR reporting but also for communication with stakeholders.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | No Difference                                                                                                                                                                                                                                                                                                                  |
| <p>5. Disclosure of information</p> <p>(1) Has the Bank set up website for the disclosure of financial information and its corporate governance practices?</p> <p>(2) Any other methods adopted by the Bank for the disclosure of information (e.g., establishing English version website, appointing persons responsible for gathering and disclosing Bank information, implementing a spokesperson system, and placing the record of analyst meeting on its website)?</p>                                                                                                                |                    | V | <p>(1) a. Disclose status of Financial information, Business operation and Corporate governance in the website (<a href="https://www.esunbank.com.tw/bank/about/announcement/legal-disclaimers/report">https://www.esunbank.com.tw/bank/about/announcement/legal-disclaimers/report</a>).</p> <p>b. Information disclosed include financial information, business operation, material for analyst meeting, internal control and contact information.</p> <p>(2) To fully follow the system of spokesman, the Bank appoints a spokesman who understand thoroughly the Bank’s financial and business conditions and who are capable of coordinating among departments. In addition, the Bank also appoints a deputy spokesman when the spokesman cannot perform his / her duties.</p> <p><b>E.SUN Bank Spokesman</b><br/> Name: Magi Chen<br/> Position: CFO / Deputy President<br/> Telephone: +8862-2175-1313<br/> Email: magi@email.esunbank.com.tw</p> <p><b>Deputy Spokesman</b><br/> Name: Mao-Chin Chen<br/> Position: CEO of Corporate Banking Division<br/> Telephone: +8862-2175-1313<br/> Email: james-0081@email.esunbank.com.tw</p>                                                                                                                                                                                                                                                                                                                       | No Difference                                                                                                                                                                                                                                                                                                                  |

| Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | State of Operation |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Deviations from "Bank Corporate Governance Best Practice Principles and reasons |
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| 6.Has the Bank provided other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing insurance for directors and supervisors, political donation and donation to interested party and public interested group)? | V                  |   | <p>(1)Enacted Guidelines for Minutes of Board Meetings to improve supervision and management of such meetings and to provide a regulatory basis to abide by in holding meetings.</p> <p>(2)The Company periodically asks directors and supervisors to take various courses.</p> <p>(3)The Company has established a Risk Management Division to draft and carry out risk control policies. The scope of risk reports and measurement systems cover the following:</p> <p>a.Credit Risk<br/>The information imparted at these events helps to establish systematic methods to manage risk derived from borrowers, counterparties, and portfolios, including creating an appropriate credit risk control environment, the adoption of credit risk controls for counterparties, and the establishment of counterparty credit ratings, along with limits on exposure to a single product, single industry, or single conglomerate.</p> <p>b.Market Risk<br/>The Company and all subsidiaries must establish price, currency, and interest rate fluctuation risk assessment and control mechanisms on all on-sheet and offsheet items.</p> <p>c.Operational Risk<br/>E.SUN is making every effort to establish operational procedures in all areas of business, and controls and auditing procedures on authorized limits, documents and custodianship of beneficiary certificates.</p> <p>d.Banking Book Risk<br/>E.SUN has established banking book interest risk management structure, related policy, method and procedure to measure, monitor and control Banking Book interest, and set up management index, warning threshold and limits.</p> <p>e.Legal and Compliance Risk<br/>E.SUN has established compliance officer system to effectively manage and improve the legal and compliance risk.</p> <p>f.Liquidity Risk<br/>E.SUN has established the mechanism of evaluating and monitoring liquidated positions to manage liquidity risk.</p> <p>g. Other Risk<br/>E.SUN has mechanisms to carry out and manage risk of reputation and other major risk via scenario stress tests, risk appetite analysis and capital adequacy.</p> <p>(4)E.SUN has always emphasized customer service quality. It provides customer complain channel and has implemented a number of customer protection policies.</p> <p>(5)In order to round out the company's corporate governance mechanism and reduce risk exposed to directors and key staff members of the company, E.SUN FHC has taken out liability insurance for directors, supervisors and key staff members. Those insured include past, present and future directors and key employees of E.SUN FHC and the FHC's subsidiaries, as well as managerial and supervisory personnel. The policies include liability insurance for these individuals, corporate compensation insurance, corporate securities claims liability coverage, and corporate employment practice liability coverage.</p> <p>(6)Employee disputes will be handled by Human Resource Division. This ensures smooth communication channels for interested parties. E.SUN holds knowledge sharing meetings in different region every year to disclose company's goal, policy and other employee-related information.</p> <p>(7)To encourage shareholders participating corporate governance, regulation of AGM is conducted, in addition, spokesman system and stock affair unit provide a communication channel for shareholders to express their opinions. Disclose status of Financial information and Business operation within the website.</p> <p>(8)To effectively enforce corporate governance and fulfill corporate social responsibility, the Bank has in place a set of Regulations Governing Donations, including political donation and donation to interested party and public interested group:</p> <p>1.Political Donations:None</p> <p>2. Interested Parties:<br/>a.E.SUN Volunteers Social Welfare and Charitable Foundation: NTS 45,302,087.<br/>( The donation includes the E.SUN World Card activity - the E.SUN Golden Seed Project - that is jointly carried out with E.SUN Bank and E.SUN Volunteers Foundation. A portion of the World Card annual fee and certain percentage of the spending made using the card is donated to the cause, for creating 125 libraries at elementary schools in remote areas.)</p> <p>3.Public Interest Group: Total amount NT 139 million.</p> | No Difference                                                                   |

| Item                                                                                                                                                                                                                                     | State of Operation |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Deviations from "Bank Corporate Governance Best Practice Principles and reasons |
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|                                                                                                                                                                                                                                          | Y                  | N | Summary                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                 |
| 7.Has the bank described the results of any corporate governance self-appraisals by the Company or appraisal reports commissioned by the Company, any shortcomings or suggestions presented in the reports and measures to rectify such: | V                  |   | <p>E.SUN was honored to have secured the Taiwan Corporate Governance Association's advanced certification of its corporate governance system.</p> <p>E.SUN Bank received Corporate Governance Advanced Certificate from Taiwan Corporate Governance Association. In its evaluation, the Taiwan Corporate Governance Association affirmed that over the years E.SUN Bank has been proactive to have its corporate governance regime undergo assessment. An outside institution is engaged to undertake objective inspection with a view to helping enhance the Bank's corporate governance performance. In addition to its core line of business, the Bank has fulfilled corporate social responsibility to the best of its abilities, participated in a great variety of public interest endeavors, and won awards from a good number of domestic and foreign specialized institutions accordingly. For its part, the Taiwan Corporate Governance Association recommended mainly the following: the Bank's parent company E.SUN FHC should form a board of director comprising members of diverse specializations and meeting industry characteristics as well as development goals and strategies; E.SUN FHC's website should list email addresses for direct access to independent directors so as to facilitate whistleblowing. E.SUN FHC is also advised to provide all newly elected directors with comprehensive training and a diverse range of channels for advanced studies so that they can keep up with industry developments, help the board function properly, and learn more about corporate governance, thereby further enhancing the board's function and efficiency.</p> | No Difference                                                                   |

### 3.4 State of E.SUN Achieving Trustworthy Operations and Related Measures Implementation of Ethical Corporate Management

| Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | State of Operation |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons |
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| <p>1. Establishment of ethical corporate management policies and programs.</p> <p>(1) Does the Bank adopt an explicit indication of its ethical corporate management policy in internal regulations and external documents; implementation of the pledge by its board of directors and management to enforce the policy rigorously and thoroughly.</p> <p>(2) Does the Bank adopt an unethical conduct prevention program in which operational procedures, behavioral guidelines, and a mechanism for punishment of and appeal for alleged violations are clearly defined, and enforce it without fail?</p> <p>(3) Does the Bank adopt preventive measures against practices listed in Paragraph 2, Article 7 of the Ethical Corporate Management Best Practice Principles for TWSE/GTSM-Listed Companies or other business activities with higher risk of being linked to unethical conduct?</p>                                                                                                                                                                                                                    | V                  |   | <p>(1) Based on a board of directors resolution, the Bank's parent company E.SUN FHC has established a set of "Ethical Corporate Management Principles, Operational Procedures and Guidelines (hereafter "Ethical Corporate Management Principles," applicable to the Bank as well). It illustrates E.SUN's ethical corporate management policy, which is specified through such channels as the corporate website, external documents and investor briefings. Meanwhile, it also specifies that the board of directors, managers, and employees shall exercise the due care of a good administrator to urge the Bank to prevent unethical conduct, always review the results of preventive measures, and continually make adjustments so as to ensure thorough implementation of its ethical corporate management policy.</p> <p>(2) To effectively forestall unethical conduct, the Bank makes ethical corporate management an integral part of its evaluation of employee performance and human resources policy. It has also established a clearly defined, effective system for setting rewards/penalties and handling complaints.</p> <p>(3) Standing by ethical principles and committed to honest business, the Bank refrains from engaging in business activities within its business scope that may incur a higher risk of committing acts of unethical conduct, and makes it a point to strengthen preventive measures. Meanwhile, the Bank refrains from offering political donations as it is set to uphold political neutrality.</p>                                                                                                                                                                                                                           | No Difference                                                                                                      |
| <p>2. Implementation of ethical corporate management</p> <p>(1) Does the Bank evaluate the records of ethical/ unethical conduct of its business counterparties and include in such contract provision demanding ethical corporate management policy compliance?</p> <p>(2) Does the Bank establish a unit under the Board of Directors that is exclusively or concurrently responsible for promoting ethical management, and reports its status of implementation to the board on a regular basis?</p> <p>(3) Status of the Bank's promulgating policies for prevention of conflicts of interests and offering appropriate means for related personnel to voluntarily explain whether their interests would potentially conflict with those of the Bank.</p> <p>(4) To enforce ethical management, does the Bank establish effective accounting and internal control systems that are subject to regular inspection of an internal auditing department or audit by externally engaged CPAs?</p> <p>(5) Does the Bank offer internal and external training with regard to ethical management on a regular basis?</p> | V                  |   | <p>(1) In the Ethical Corporate Management Principles, it is specified that the Bank shall refrain from having any dealings with parties that have any records of unethical conduct. When entering into contracts with other parties, the Bank shall include in such contract provision demanding ethical corporate management policy compliance.</p> <p>(2) At the Bank's parent company E.SUN FHC, the Corporate Governance and Nomination Committee is charged with the duty of setting and enforcing its ethical management policy and program for prevention of unethical conduct. The committee is also responsible for mapping out, implementing, and interpreting behavioral guidelines; handling queries and consultations; and registering and archiving related reports. Meanwhile, the committee is supposed to report its status of implementation to E.SUN FHC's Board of Directors on a regular basis.</p> <p>(3) The Ethical Corporate Management Principles shall specify policies for preventing conflicts of interests and provide a smooth communication and complaint filing system. Employees can file reports through a number of channels to senior management and the Human Resources Division.</p> <p>(4) The Bank has established an effective accounting system that prohibits any outside or secret accounts. On top of an effective internal control system, the Bank has also established an internal audit unit under the board of directors; it is required to report to the Audit Committee and the Board of Directors at least once per quarter.</p> <p>(5) The Bank undertakes training with regard to ethical service principles and behavioral guidelines on a regular basis. All employees are required to attend and pass tests.</p> | No Difference                                                                                                      |
| <p>3. Status of the Bank's implementation of its offence reporting system:</p> <p>(1) Does the Bank establish a mechanism that incentivizes prosecutors to step forward, put in place channels convenient for taking such action, and assign appropriate personnel to handle such cases?</p> <p>(2) Does the Bank set a standard operating procedure (SOP) for handling reports from prosecutors and adopt a mechanism for keeping confidentiality?</p> <p>(3) Does the Bank adopt measures to make sure that prosecutors do not undergo improper treatment because of their stepping forward?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | V                  |   | <p>(1) The Bank incorporates ethical management into its employee performance evaluation and human resources policy. A clearly defined, effective system of rewards and penalties is established, and multiple smooth, convenient channels are offered for employees to present information to both different levels of the management and the human resources department. Based on the Bank's pertinent operating procedure, such cases are then transferred to the relevant dedicated unit, that is, the Administrative Management Section (Legal Affairs) of the Bank's parent company E.SUN FHC.</p> <p>(2) When handling allegations against unethical conduct performed by its employees, the Bank shall abide by pertinent laws and regulations as well as internal rules and operating procedure while conducting investigations. Throughout the process, the identity of informants and content of their information shall be kept confidential.</p> <p>(3) The Bank would ensure it keeps the identity of the prosecutor confidential and provide measures of protection in an effort to protect the prosecutor from receiving unfavourable treatment or retaliation.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | No Difference                                                                                                      |
| <p>4. Enforcement of information disclosure</p> <p>Does the Bank disclose the content and implementation status of its Principles for Ethical Management on its own website and the TSE's Market Observation Post System website?</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | V                  |   | The Bank's parent company E.SUN FHC has a corporate website, that discloses the Ethical Corporate Management Principles of its own as well as the Bank's ethical corporate management practices.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | No Difference                                                                                                      |
| <p>5. If the Bank has established its own ethical corporate management principles based on the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, please describe any discrepancy in the Bank's implementation of the principles and explain why : No Difference.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                    |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                    |

| Item                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | State of Operation |   | Summary | Deviations from "Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies" and reasons |
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|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Y                  | N |         |                                                                                                                    |
| <p>6. Other important information to facilitate better understanding of the Bank's implementation of ethical corporate management (e.g., status of the Bank's reviewing and amending its own ethical corporate management principles): the ethical corporate management principles established by the Bank's parent company E.SUN FHC and practices are subject to reexamination and readjustment whenever warranted. With "Pure as Jade, Sturdy as Mountain" as its hallmark in business operation, E.SUN Bank is committed to making "a paradigm of the financial services industry and a bellwether of the service industry." Over the years E.SUN has taken action to show care for society and honor its commitment to Taiwan. E.SUN aims to be recognized as not only the best-performing enterprise but also the most-respected one in Taiwan.</p> |                    |   |         |                                                                                                                    |

### 3.5 Corporate Governance Guidelines and Regulations

Please refer to the Bank's website at : <https://www.esunbank.com.tw/bank/about/announcement/legal-disclaimers/report>

### 3.6 Other Important Information Enhancing Understanding of the State of the Company's Corporate Governance

The parent company E.SUN FHC treats the disclosure of corporate governance information in prudent manner, and strives to ensure the correctness, integrity, and timeliness of all matters reported by subsidiaries' public information stations, major announced information, company websites, external news announcements, the production of annual reports, and various information that must be disclosed in accordance with law. Relevant disclosed matters are regularly reviewed and updated in accordance with the clearly-delineated duties of the responsible units. When major events or news are announced, the Bank will quickly report its response. The E.SUN FHC spokesperson shall oversee all external information disclosure, including responsible units' media contact, and issuance of news or important information. With regard to the disclosure of information concerning the board of directors and audit committee, business integrity guidelines, procedures for the acquisition or disposition of assets, the internal audit organization and its operation, and other major information, as well as shareholders meeting information, distribution of dividends, and financial service information, all such information shall be disclosed in detail in the E.SUN FHC annual report or website.

### 3.7 Training of Directors

| Title                                   | Name                | Date of Election | Implementing organization                                                   | Training Course                                                                                                                        | Training hours | Does training meet regulations |
|-----------------------------------------|---------------------|------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| Institutional director's representative | Gary K.L. Tseng     | 2017.06.23       | Taiwan Institute for Sustainable Energy Center for Corporate Sustainability | Local development to create a sustainable future                                                                                       | 2              | Yes                            |
|                                         |                     |                  | Taiwan Academy of Banking and Finance                                       | Laws, Regulations, and Response Strategies for Anti-Money Laundering and Countering Terrorism Financing                                | 3              |                                |
|                                         |                     |                  | Taiwan Corporate Governance Association                                     | Opportunities, Challenges, and Risks in Digital Technologies                                                                           | 3              |                                |
| Institutional director's representative | Joseph N.C Huang    | 2017.06.23       | Taiwan Corporate Governance Association                                     | Corporate governance and securities laws                                                                                               | 3              | Yes                            |
|                                         |                     |                  |                                                                             | Risk management and internal control                                                                                                   | 3              |                                |
|                                         |                     |                  |                                                                             | How to strengthen board functions and director competency                                                                              | 2              |                                |
|                                         |                     |                  | Taiwan Academy of Banking and Finance                                       | Trust Supervisors (Including Current Personnel) Workshop                                                                               | 3              |                                |
|                                         |                     |                  |                                                                             | Laws, Regulations, and Response Strategies for Anti-Money Laundering and Countering Terrorism Financing                                | 3              |                                |
| Institutional director's representative | Jackson Mai         | 2017.06.23       | Institute of Internal Auditors-Chinese Taiwan                               | Case study of E.SUN tax planning in practice                                                                                           | 3              | Yes                            |
|                                         |                     |                  |                                                                             | Family inheritance planning and implementation                                                                                         | 3              |                                |
| Independent director                    | Chen-En Ko          | 2017.06.23       | Taiwan Corporate Governance Association                                     | How to strengthen board functions and director competency                                                                              | 2              | Yes                            |
|                                         |                     |                  |                                                                             | Case study of board of directors, business, and ABC business succession planning (lecturer)                                            | 3              |                                |
|                                         |                     |                  |                                                                             | Responsibilities of directors and supervisors in merger & acquisition                                                                  | 3              |                                |
|                                         |                     |                  |                                                                             | Director/supervisor supervision of corporate risk management and crisis management for stronger corporate governance                   | 3              |                                |
|                                         |                     |                  |                                                                             | Opportunities, Challenges, and Risks in Digital Technologies                                                                           | 3              |                                |
| Independent director                    | Ji-Ren Lee          | 2017.06.23       | Taiwan Corporate Governance Association                                     | Age of the analytics of things: Trends in information security and personal information protection and director/supervisor liabilities | 3              | Yes                            |
|                                         |                     |                  |                                                                             | Recent development of anti-avoidance policies in Taiwan and corresponding responses                                                    | 3              |                                |
| Independent director                    | Chen-Chen Chang Lin | 2017.06.23       | Institute of Internal Auditors-Chinese Taiwan                               | Laws, Regulations, and Response Strategies for Anti-Money Laundering and Countering Terrorism Financing                                | 6              | Yes                            |
|                                         |                     |                  | Taiwan Academy of Banking and Finance                                       | Opportunities, Challenges, and Risks in Digital Technologies                                                                           | 6              |                                |
| Independent director                    | Hsin-I Lin          | 2017.06.23       | Taiwan Corporate Governance Association                                     | Major reform in auditing reports                                                                                                       | 6              | Yes                            |
|                                         |                     |                  |                                                                             | Director/supervisor supervision of corporate risk management and crisis management                                                     | 3              |                                |

| Title                                   | Name           | Date of Election | Implementing organization                                                   | Training Course                                                                                         | Training hours | Does training meet regulations |
|-----------------------------------------|----------------|------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------|--------------------------------|
| Independent director                    | Chun-Yao Huang | 2017.06.23       | Taiwan Corporate Governance Association                                     | How to effectively detect and prevent fraudulence for stronger corporate governance                     | 3              | Yes                            |
|                                         |                |                  |                                                                             | Director self-discipline for creating corporate value                                                   | 3              |                                |
|                                         |                |                  |                                                                             | The 13th International Corporate Governance Summit Forum                                                | 3              |                                |
|                                         |                |                  | Taiwan Academy of Banking and Finance                                       | Laws, Regulations, and Response Strategies for Anti-Money Laundering and Countering Terrorism Financing | 3              |                                |
| Institutional director's representative | Rong Chu Chen  | 2017.06.23       | Securities & Futures Institute                                              | Insider Trading Compliance Seminar for Public Listed Companies and Non-Public-Listed Companies          | 3              | Yes                            |
|                                         |                |                  |                                                                             | 2017 Insider Trading and Corporate Social Responsibility Seminar                                        | 3              |                                |
| Institutional director's representative | Chien-Li Wu    | 2017.06.23       | Taiwan Corporate Governance Association                                     | Major reform in auditing reports                                                                        | 3              | Yes                            |
|                                         |                |                  |                                                                             | Director/supervisor supervision of corporate risk management and crisis management                      | 3              |                                |
| Institutional director's representative | Magi Chen      | 2017.06.23       | Taiwan Academy of Banking and Finance                                       | Laws, Regulations, and Response Strategies for Anti-Money Laundering and Countering Terrorism Financing | 3              | Yes                            |
|                                         |                |                  | Taiwan Corporate Governance Association                                     | Opportunities, Challenges, and Risks in Digital Technologies                                            | 3              |                                |
| Institutional director's representative | Mao-Chin Chen  | 2017.06.23       | Taiwan Institute for Sustainable Energy Center for Corporate Sustainability | Local development to create a sustainable future                                                        | 2              | Yes                            |
|                                         |                |                  | Taiwan Academy of Banking and Finance                                       | Anti-Money Laundering and Strengthening Internal Control and Risk Management of Financial Institutions  | 3              |                                |
|                                         |                |                  |                                                                             | Laws, Regulations, and Response Strategies for Anti-Money Laundering and Countering Terrorism Financing | 3              |                                |
|                                         |                |                  | Taiwan Corporate Governance Association                                     | Board performance evaluation from directors' perspectives                                               | 3              |                                |
|                                         |                |                  |                                                                             | How do directors fulfill their duties of loyalty                                                        | 3              |                                |

### 3.8 Internal Control

#### 3.8.1 Statement on Internal Control System

##### E.SUN COMMERCIAL BANK, LTD. Statement on Internal Control System

1 March, 2018

On behalf of E.SUN Commercial Bank, Ltd., we hereby declare that the Company, pursuant to the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries, did establish an internal control system and conduct risk management from January 1 through December 31, 2017. In the meantime, an impartial and independent entity was called in to conduct audit and report its findings to the Company's Audit Committee and Board of Directors on a regular basis. Regarding securities and insurance agent businesses, according to criteria for evaluation of internal control systems required by the "Criteria for Establishment of Internal Control Systems by Securities and Futures Service Enterprises" promulgated by the Securities and Futures Bureau of the Financial Supervisory Commission and "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies" promulgated by the Insurance Bureau of the Financial Supervisory Commission, our bank has carried out an evaluation of whether the design and implementation of our internal control system is effective. Based on a meticulous review, we affirm that all departments of the Company had been able to effectively enforce internal control and compliance-related measures during the said period, except for matters listed in the table attached below. This Statement will be an integral part of E.SUN Bank's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the aforementioned items to be disclosed will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

To Financial Supervisory Commission

Chairman



President



General Auditor



Chief Compliance Officer



**E.SUN Commercial Bank Matters Require Rectification in Internal Control System and Rectification Status  
(Record Date: December 31, 2017)**

| Matters Require Rectification                                                                                                                                                                                                                                                                                                                                                                                | Rectification Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Expected Completion Time of Rectification          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| When E.SUN Bank engages in the financial derivatives business, it shall properly review customers' minutes of Board of Directors meetings and financial data.                                                                                                                                                                                                                                                | Relevant units have enhanced the operational procedures in regard to mechanisms of data provision, credit loan review, post-loan management and corresponding punishment.                                                                                                                                                                                                                                                                                                               | Has been rectified.                                |
| When E.SUN Bank engages in operations involving information systems, it shall properly manage matters in regard to the intensity of security protection measures, internet environment and connection management, trail retention mechanism, and system administrator account and password management.                                                                                                       | E.SUN Bank has conducted relevant rectification and enhancement measures, including enhancement of security protection intensity of testing environment, and strengthening of internet environment, connection and system administrator account and password management. It has also enhanced the trail retention mechanism.                                                                                                                                                            | Has been rectified.                                |
| Some employees were found to have kept customers' signed blank documents, which require rectification.                                                                                                                                                                                                                                                                                                       | The case in question has been resolved and the subsidiary will exercise more intensive training and care in similar situations in the future.                                                                                                                                                                                                                                                                                                                                           | Has been rectified.                                |
| <p><b>Hong Kong Branch</b><br/>E.SUN Bank shall establish internal control standards and internal audit units shall audit relevant procedures when local branches assist overseas branches (subsidiary banks) in the confirmation and transmission of customers' data, and signature verification and due diligence of the party involved required for business activities such as deposit, credit, etc.</p> | E.SUN Bank has established "E.Sun Bank Cross-border Due Diligence Guidelines" as an internal control policy, and included cross-border due diligence as part of its internal audit focuses and conducted audits.                                                                                                                                                                                                                                                                        | Has been rectified.                                |
| <p><b>Hong Kong Branch</b><br/>E.SUN Bank shall strengthen anti-money laundering and counter terrorism financing (AML and CTF) policy and procedures, which clearly elaborate on all aspects and facilitate the operations and implementation by branches based on AML policy.</p>                                                                                                                           | <ol style="list-style-type: none"> <li>1.E.SUN Bank has engaged an external consultant to carry out rectification schemes, and completed all modifications in January 2018.</li> <li>2.E.SUN Bank has established a system to review customer risk on a regular basis and conduct a comprehensive review on customers of branches.</li> <li>3.E.SUN Bank has assisted in the establishment of the GAML system, which is scheduled to be modified and released in March 2018.</li> </ol> | It is expected to be completed in late March 2018. |
| <p><b>Hong Kong Branch</b><br/>E.SUN Bank shall properly plan for a system of prudential measures on property mortgage loans and conduct control.</p>                                                                                                                                                                                                                                                        | Hong Kong Branch has completed the establishment of supplementary operational standards and data inspection, which have been reviewed by the Head Office and so the case was closed.                                                                                                                                                                                                                                                                                                    | Has been rectified.                                |
| <p><b>Subsidiary</b><br/><b>E.SUN Commercial Bank (China)</b><br/>E.SUN Commercial Bank (China) shall maintain its actual deposit reserve ratio in the deposit reserve account at the end of business day above the requirements set out by the regulator.</p>                                                                                                                                               | As for the deposit reserve, the Planning & Financial Dept. has passed the organizational learning and cultivation and strengthened re-examination and review mechanisms to improve the allocation procedures for the deposit reserve account.                                                                                                                                                                                                                                           | Has been rectified.                                |
| <p><b>Subsidiary</b><br/><b>Cambodia Union Commercial Bank PLC (UCB)</b><br/>A clerk was found to have violated the cash operational procedures when the acting branch manager took advantage of his/her duties and the opportunity arising from the deposit &amp; remittance supervisor taking leaves.</p>                                                                                                  | <ol style="list-style-type: none"> <li>1.To strengthen employee's awareness of the rule of law and training for ethical rules.</li> <li>2.To adopt a dual authorization mechanism for transactions above a certain amount.</li> </ol>                                                                                                                                                                                                                                                   | Has been rectified.                                |

**3.7.2 Disclosure of Any Commissioned Internal Control Review Carried out by CPA: None**

**3.9 Penalties imposed against E.SUN FHC and subsidiaries, the weaknesses found and improvements made in the last 2 years up to the printing date of the annual report. The following matters shall also be disclosed:**

- (1) Prosecution against the person-in-charge or staff for criminal conduct: None.
  - (2) Fines imposed by Financial Supervisory Commission (FSC) for violations:  
Subsidiary - E.SUN Bank failed to establish or implement an internal control mechanism for reviewing Board of Directors records of financial derivatives clients and clients' financial statements. The competent authority thus imposed a fine of NT\$4 million. Subsidiary - E.SUN Bank completed improvements through data requisition, credit review, post loan management and corresponding penalty mechanisms, and operating procedure improvement.
  - (3) Corrections issued by the Financial Supervisory Commission:
    - (a) There were discrepancies between the 2015 Financial Report approved in the Company's 2016 shareholders meeting and the 2015 Financial Report that was announced and reported. The discrepancies were not announced and reported within 2 days of their occurrence and were corrected by the competent authority. The discrepancies were due to the version of the financial report that was announced and reported using net amount to express items, and do not affect the total of main items on the Company's financial statements. This will not cause readers of the Company's financial statements to be misled or make the wrong judgment. The Company thus made a checklist to include primary items and secondary items of the annual financial report and strictly control operating procedures.
    - (b) Subsidiary - E.SUN Bank was found to have failed to follow an appropriate sales process, business management and compliance procedure when handling derivative products and failed to implement adequate risk management mechanisms. E.SUN Bank had been given a warning by the competent authority. Subsidiary - E.SUN Bank reviewed the above findings again, amended relevant procedures and guidelines accordingly, and also implemented adequate risk management mechanisms and ensured they are effectively executed.
    - (c) Subsidiary - E.SUN Bank did not comply with Article 8 of the Trust Association of R.O.C Notes on Real Estate Development Trust and Escrow Trust of Pre-sale Houses when conducting real estate development trust. E.SUN Bank had been given a warning by the competent authority. Subsidiary - E.SUN Bank reviewed the weaknesses again and revised its practice manual accordingly, providing a basis for strengthening management operations, project control, and regulatory compliance. Improvements have been completed for current weaknesses.
  - (d) Subsidiary - E.SUN Bank failed to properly supervise anti-money laundering operations in its Hong Kong Branch, and did not establish adequate internal control procedures for domestic branches to help overseas branches carry out savings and credit businesses. E.SUN Bank had been given a warning by the competent authority. Subsidiary - E.SUN Bank commissioned an external consultant to implement an improvement plan, establish a system for periodically reexamining customer risk, comprehensively review branch customers, assist with the establishment of a GAML system, and establish the "E.Sun Bank Cross-border Due Diligence Guidelines" as an internal control policy, including cross-border due diligence as part of internal audits that are carried out.
  - (e) Subsidiary - E.SUN Bank's information system had inadequate security measures. E.SUN Bank had been given a warning by the competent authority. Subsidiary - E.SUN Bank has implemented improvement and reinforcement measures, including strengthening the security measures of the testing environment, strengthening the network environment, connections, and account and password of system administrators, and improving the tracking mechanism. Improvements have been completed for all weaknesses.
  - (f) Subsidiary - E.SUN Securities had weaknesses in its AML/CFT operations, customer due diligence, and procedures for reporting suspected money laundering. E.SUN Securities had been given a warning by the competent authority. Subsidiary - E.SUN Securities revised its internal regulations and adjusted control mechanisms in accordance with the latest laws, and strengthened the judgment of personnel for suspected money laundering.
- (4) Penalties imposed by the FSC in accordance with Paragraph 1 of Article 54 of the Financial Holding Company Act: None.
  - (5) For security incidents caused by employee fraud, material sporadic cases (fraud, theft, embezzlement, false transactions, falsified certificate or negotiable securities, receiving kickbacks, losses from natural disasters, losses from force majeure, data hacked or stolen, or leaking business secrets and client data), or failure to comply with the Notices for Financial Institution Security Maintenance resulting in actual losses exceeding NT\$50 million individually or in total, the nature of the security incident and the amount of losses shall be disclosed: None.
  - (6) Other matters specified by the FSC for disclosure: None.

## IV. Capital Overview



# 1. Shares and Dividends

## 1.1 Source of Capital

2018.03.20 Unit: thousand shares, NT\$ thousands

| Month/Year         | Par Value (NTD) | Authorized Capital |            | Paid-in Capital |            | Remark            |        |
|--------------------|-----------------|--------------------|------------|-----------------|------------|-------------------|--------|
|                    |                 | Shares             | Amount     | Shares          | Amount     | Source            | Others |
| 2007.1.1           |                 | 2,890,991          | 28,909,905 | 2,890,991       | 28,909,905 |                   |        |
| 2007.6.5 (note1)   | 10              | 29,009             | 290,095    | 2,920,000       | 29,200,000 | Retained Earnings |        |
| 2007.6.21 (note2)  | 20              | 200,000            | 2,000,000  | 3,120,000       | 31,200,000 | Rights offering   |        |
| 2009.6.26 (note3)  | 10              | 62,400             | 624,000    | 3,182,400       | 31,824,000 | Retained Earnings |        |
| 2009.12.4 (note4)  | 14              | 180,000            | 1,800,000  | 3,362,400       | 33,624,000 | Rights offering   |        |
| 2010.6.3 (note5)   | 10              | 147,600            | 1,476,000  | 3,510,000       | 35,100,000 | Retained Earnings |        |
| 2011.6.13 (note6)  | 10              | 210,600            | 2,106,000  | 3,720,600       | 37,206,000 | Retained Earnings |        |
| 2011.11.22 (note7) | 15              | 500,000            | 5,000,000  | 4,220,600       | 42,206,000 | Rights offering   |        |
| 2012.6.8 (note8)   | 10              | 151,900            | 1,519,000  | 4,372,500       | 43,725,000 | Retained Earnings |        |
| 2012.11.30 (note9) | 15.5            | 200,000            | 2,000,000  | 4,572,500       | 45,725,000 | Rights offering   |        |
| 2013.6.6 (note10)  | 10              | 412,500            | 4,125,000  | 4,985,000       | 49,850,000 | Retained Earnings |        |
| 2014.3.21(note11)  | 15              | 140,000            | 1,400,000  | 5,125,000       | 51,250,000 | Rights offering   |        |
| 2014.5.19(note12)  | 10              | 435,000            | 4,350,000  | 5,560,000       | 55,600,000 | Retained Earnings |        |
| 2014.5.23(note13)  | 16.6            | 576,000            | 5,760,000  | 6,136,000       | 61,360,000 | Rights offering   |        |
| 2015.5.25(note 14) | 10              | 408,000            | 4,080,000  | 6,544,000       | 65,440,000 | Retained Earnings |        |
| 2015.6.3(note 15)  | 17              | 140,000            | 1,400,000  | 6,684,000       | 66,840,000 | Rights offering   |        |
| 2016.5.27(note 16) | 10              | 44,183             | 4,418,300  | 44,183          | 67,281,830 | Share conversion  |        |
| 2016.7.6(note 17)  | 10              | 534,700            | 5,347,000  | 7,262,883       | 72,628,830 | Retained earnings |        |
| 2017.6.20(note 18) | 17.38           | 604,000            | 6,040,000  | 7,866,883       | 78,668,830 | Rights offering   |        |
| 2017.6.20(note 18) | 10              | 445,217            | 4,452,170  | 8,312,100       | 83,121,000 | Retained earnings |        |

Note1 : The Securities and Futures Bureau of the Financial Supervisory Committee on June 5, 2007 granted approval for issuance in its letter Zidi 0960027542.

Note2 : The Banking Bureau of the Financial Supervisory Committee on June 21, 2007 granted approval for issuance in its letter Zidi 09600256501.

Note3 : The Securities and Futures Bureau of the Financial Supervisory Committee on June 26, 2009 granted approval for issuance in its letter Zidi 0980030711.

Note4 : The Banking Bureau of the Financial Supervisory Committee on December 4, 2009 granted approval for issuance in its letter Zidi 09800558761.

Note5 : The Securities and Futures Bureau of the Financial Supervisory Committee on June 3, 2010 granted approval for issuance in its letter Zidi 0990027492.

Note6 : The Securities and Futures Bureau of the Financial Supervisory Committee on June 13, 2011 granted approval for issuance in its letter Zidi 1000025959.

Note7 : The Banking Bureau of the Financial Supervisory Committee on November 22, 2011 granted approval for issuance in its letter Zidi 10000401021.

Note8 : The Securities and Futures Bureau of the Financial Supervisory Committee on June 8, 2012 granted approval for issuance in its letter Zidi 1010024779.

Note9 : The Banking Bureau of the Financial Supervisory Committee on November 30, 2012 granted approval for issuance in its letter Zidi 10100388601.

Note10 : The Banking Bureau of the Financial Supervisory Committee on June 6, 2013 granted approval for issuance in its letter Zidi 1020021282.

Note11 : Ministry of Economic Affairs on March 21, 2014 granted approval for issuance in its letter Zidi 10301045950.

Note12 : The Financial Supervisory Committee on May 19, 2014 granted approval for issuance in its letter Zidi 1030016610.

Note13 : The Financial Supervisory Committee on May 23, 2014 granted approval for issuance in its letter Zidi 10300140571.

Note14 : The Financial Supervisory Committee on May 18, 2015 granted approval for issuance in its letter Zidi 1040016102.

Note15 : The Financial Supervisory Committee on May 22, 2015 granted approval for issuance in its letter Zidi 10400115520.

Note16 : Ministry of Economic Affairs on May 27, 2016 granted approval for issuance in its letter Zidi 10501108510.

Note17 : Ministry of Economic Affairs on July 6, 2016 granted approval for issuance in its letter Zidi 10501143410.

Note 18 : Approved under Letter No. Jing-Shou-Shang-10601076060 issued by the Ministry of Economic Affairs on June 20, 2017; Approved under Letter No. Jin-Guan-Yin-Kong-10600164770 issued by the Financial Supervisory Commission on July 5, 2017.

## 1.2 Type of Shares

2018.03.20 Unit: Share

| Type of Shares | Authorized Capital |                  |               | Remark |
|----------------|--------------------|------------------|---------------|--------|
|                | Issued Shares *    | Un-issued Shares | Total Shares  |        |
| Common Shares  | 8,312,100,000      | 0                | 8,312,100,000 |        |

Note : The bank is a public company and the stock is not belong to listed or OTC stock.

## 1.3 Structure of Shareholders

The Bank is a wholly owned subsidiary of E.SUN FHC.

## 1.4 Shareholding Distribution Status

The Bank is a wholly owned subsidiary of E.SUN FHC.

## 1.5 List of Major Shareholders

The Bank is a wholly owned subsidiary of E.SUN FHC.

## 1.6 Dividend Policy and Implementation Status

- (1) In order to achieve the goal of sound financial structure and to enhance the self-owned capital ratio, the policy of dividend distribution of the bank shall be primarily on the basis of stock dividend. In the event that at the year dividends proposed to be distributed the bank's BIS ratio after compilation of final financial statements is greater than the requirement by the regulatory agencies, the cash dividend may therefore be distributed but shall not be less than 10% of the total dividends. However, in case of the proposed distribution of cash dividend lower than NT\$0.1 per share, the bank may, at its sole discretion, opt to make such distribution out of stock dividends. Before the legal reserve equals the total capital amount, the maximum cash distribution of profit shall not exceed fifteen percent of the total paid-up capital amount.
- (2) The proposed dividends payout for the 2017 financial year would be a stock dividend of NT\$0.39 per share, totaling NT\$ 3,249,000,000, as well as a cash dividend of NT\$0.78 per share, or a total of NT\$6,476,157,000. Combined, the Company was to pay out NT\$9,725,157,000, or NT\$ 1.17 per common share in dividends, accounts for 99.90% of the surplus available for distribution.

## 1.7 Impact on business performance and earnings per share of stock dividend payment proposed at the most recent shareholders' meeting: Not applicable.

## 1.8 Employee Remuneration and Compensation for Directors

According to Article 40 of the Bank's Articles of Incorporation: The earnings of the Bank in a given year (pretax profit before deduction of compensation for employees and directors) shall be reserved to cover the losses accumulated from previous years. 3% of the balance from the above shall be allocated as compensation for employees and not more than 0.6%, compensation for directors. Recipients of employee bonuses shall include employees of affiliate companies who meet certain preset conditions. Motions on employee bonuses and director compensation shall be presented before shareholders' meetings.

## 1.9 Information on Board-Approved Employee Remuneration and Compensation for Directors

- (1) Employee bonus is NT\$ 508,277,917 and Directors' compensation is NT\$ 86,000,000. Employee bonus is NTD 3,729 less than the estimated amount, which difference has been incurred by changes in accounting estimations and shall be listed as losses for the 2018 fiscal year.
- (2) Ratio between proposed stock remuneration given out to employees and capital increments from retained earnings: All distributed as cash bonus.

## 1.10 Share Repurchase: None.

## 2. Preferred Shares Issuance: None.

## 3. GDR Issuance: None.

## 4. Employee Stock Option and Status of New Shares: None.

## 5. Basic Information of Other Financial Institutions Acquired or Transferred

|                                                |                                                                                          |            |
|------------------------------------------------|------------------------------------------------------------------------------------------|------------|
| Name of financial institution                  | Union Commercial Bank Public Limited Corporation                                         |            |
| Address of financial institution               | UCB Building, No. 61, 130 Road, Sangkat Phsar Chas, Khan Daun Penh, Phnom Penh, Cambodia |            |
| Legal Representative                           | Mao-Ching Chen                                                                           |            |
| Paid-in capital                                | 1,123,613                                                                                |            |
| Primary scope of business                      | Commerce Banking                                                                         |            |
| Key Products                                   | Profit and loss before tax                                                               |            |
| Financial information for the most recent year | Total assets                                                                             | 16,813,075 |
|                                                | Total liabilities                                                                        | 13,524,408 |
|                                                | Total shareholders' equity                                                               | 3,288,667  |
|                                                | Net interest income                                                                      | 531,427    |
|                                                | Net operating income                                                                     | 718,838    |
|                                                | Profit and loss before tax                                                               | (804,721)  |
|                                                | Current profit and loss                                                                  | (643,016)  |
| Earnings per share                             | (17,147.09)                                                                              |            |

## V. Operational Highlights



# 1. Business Activities

E.SUN will maintain a persistent growth in its overall performance. Meanwhile, E.SUN will continue to deliver quality financial services to customers with its expertise, professionalism, and technology, and works towards a bright future.

## 1.1 Corporate Banking

### (1) Corporate Lending

As far as its lending policy is concerned, the Bank gives priority to identifying clients with sound operations and strong credit records as well as continuously strengthening risk control capabilities and enhancing asset quality. At the end of 2017, the outstanding balance of corporate lending stood at NT\$604,161 million, representing 50.39% of the Bank's total loan portfolio and a NT\$51,884 million increase from a year earlier. Of the year's corporate loans, 39% were extended to the manufacturing industry, 19% to wholesalers and retailers, and 14% to the financial, insurance, and real estate sectors.

We offer products and services for companies in need with an eye toward value and our customers demand. We serve corporate growth by providing convenient, innovative, diversified, integrated services including corporate lending, syndicated loans, trade finance, M&A financing, green energy, and financing innovative policy industries. We further responded to companies' overseas development needs by providing a diversified, cross-border service platform that is consistent in different countries. This has made us the most trustworthy long-term partner for corporates, and the bank of choice for small and medium enterprise and multinational corporations.

### (2) Foreign Exchange

The Bank's ongoing efforts in the development and refinement of foreign currency system,

practices and procedures have yielded exceptional results in terms of service and process quality, for which it was the "STP Award" ten years in a row. To ensure ongoing improvements to the professionalism and efficiency of remittance service, E.SUN Bank became one of the first banks in Taiwan to join SWIFT's Global Payments Innovation (GPI) program in 2017, and adopted a more streamlined and transparent remittance process that connects to the new international banking standards. To fulfill our goal of becoming a featured bank in Asia, E.SUN has responded actively to anti-money laundering and counter terrorism financing initiatives around the world by exercising robust due diligence and monitoring suspicious transactions as part of our foreign currency service. At E.SUN, we take our fight against money laundering and terrorism financing very seriously.

## 1.2 Consumer Banking

### (1) Deposit

At the end of 2017, the Bank's outstanding balance of deposits came in at NT\$1,694,745 million, a rise of NT\$152,189 million (8.98%) from a year earlier. Demand deposits amounted to NT\$965,205 million, accounting for 57% of all deposits. Time deposits amounted to NT\$729,540 million, 43% of all deposits. The overall structure of deposits is sound, and its amount grows steadily.

### (2) Mortgage Loans

The Bank's mortgage loan balance was NT\$497,204 million as of the end of December 2017. Due to the downward adjustment of risk weight by the competent authority and the continuous demand of buying house for self-use, mortgage loan business grow steadily with risk control; meanwhile, create customers' value with profession.

Transactions in real estate market rebounded

in 2017. The market was supported by the demand of buying house for self-use, transactions slowly increased in the short term. The house price still varies significantly in different areas, hence the area management will be the key to control risk. E.SUN strives to focus on high-quality customers and risk pricing, creating cross-selling value by mortgage loan business.

### (3) Unsecured Personal Loans

The strategy of personal loans is to grow and expand the balance steadily. With the dynamic risk identification model, we are able to recognize customers' attribute and segment risks to ensure the quality of our credit portfolio.

E.SUN also continues to promote collateral security products; apart from enhancing the security of the bank's creditor's rights, customers can make full use of the value of their real estate in order to wield funds with greater flexibility.

In order to react to the trend of digitalization, E.SUN strives to enhance the service capabilities of digital channels. Customers can query the credit line and interest, or make applications and confirmation online. It's a 24/7 financing service to meet customers' needs.

Through the use of scientific analysis, E.SUN figures out different customers' behavior and their potential needs. We make profit effectively, grow steadily by Omni-channels strategy and tailor-made marketing.

### (4) Micro SMEs

Small enterprises play an important role in economic development in Taiwan; which also make positive influence to the neighboring area of E.SUN branches. To facilitate growth of the overall economy and focus on the long-term value of localization, E.SUN will leverage its branches

to enhance market reputation by offering professional service and reaching customers through diversified means. We strongly believe that we can leverage our credit business to acquire more interactions with customers.

## 1.3 Wealth Management

E.Sun prides itself for serving customers with passion "Pure as Jade, Sturdy as Mountain." Its persistence in providing professional financial services was rewarded with multiple awards locally and abroad in 2017, including No. 1 "Best Wealth Management Bank" by Business Today, "Best Wealth Manager in Taiwan" by The Asset and "Best Private Bank in Taiwan" by Asiamoney.

### (1) Mutual Funds

As global economic recovery continued into 2017, commodity prices exhibited moderate increase, while equity and debt markets rose to unprecedented heights. The wealth management team specializes in offering quality products and professional services that conform to market trends and help customers capitalize on investment opportunities. Examples of which include: retirement-themed funds, preferred share funds that offer the benefits of both debt and equity, and multi-asset funds featuring "free cash flow" selection and dynamic allocation strategies. Together, they provide customers with a broad range of products to choose from. At the end of 2017, the Bank's overseas trust balance amounted to NT\$137.228 billion whereas domestic trust balance totaled NT\$53.743 billion.

### (2) Bancassurance

E.SUN Bank works with several reputable insurance companies to introduce distinctively featured products that offer protection and investment choices at different stages in customer's life. Having noticed the low sum assured across the general population, E.SUN

responded by introducing life insurance products with emphasis on protection. To conform with the market trends, E.SUN, too, started offering distinctively featured investment-linked and USD-denominated products in the life insurance segment; in the non-life insurance segment, products such as auto insurance, fire insurance, travel insurance, and liability insurance have also been introduced. As part of its corporate social responsibilities, E.SUN is also active in the promotion of nursing insurance and microinsurance policies. E.SUN Bank was the first among its peers to launch online insurance application service, which gives customers the convenience of purchasing travel insurance, auto insurance, and compulsory motorcycle insurance online anytime, anywhere.

### (3) Trust and Related Businesses

The Bank provides a comprehensive range of trust services that can be customized to satisfy customers' wealth plans and protect their assets.

In terms of personal trust service, E.SUN offers children's education trust, retirement trust, insurance trust, and testamentary trust to complement wealth plans of each family. In view of Taiwan's transformation into an aged society, the Bank has been supporting the government's policies by actively promoting nursing trusts, for which it ranked among the top-performing banks in Financial Supervisory Commission's first "Performance Evaluation for Trust of Senior Citizens and Persons with Disabilities."

As for corporate trust service, E.SUN 's solutions include prepayment (gift voucher) trust, employee shareholding trust, restricted employee share trust, real estate development trust, and corporate bond custody/certification/issuance trust.

At the end of 2017, the Bank had NT\$487.593

billion of trust assets under management, up NT\$75.934 billion from the previous year. Meanwhile, the Bank had NT\$74.827 billion of securities and NT\$263.372 billion of fund assets held in its custody.

## 1.4 Digital Banking

Digital banking will progress in line with the three major financial trends described below:

### (1) Financial scene

From online merchants and online games to offline merchants including convenience stores, retail chains, night markets and shopping districts, the Bank aims to work with strategic partners to introduce a payment solution that is useful in all scenarios. Furthermore, by applying big data in precision marketing, the Bank hopes to direct new customers towards merchants and create a financial scene where the Bank is in a position to help SMEs grow while provide differentiated services to customers.

### (2) Smart banking

By combining big data, smart referrals and AI technology, E.SUN aims to create a proprietary media platform that focuses on serving customers. Furthermore, the Bank will actively engage customers over social media, conducting customer service, digital product marketing, referral and investment consultation over the most popular networks.

### (3) Financial inclusion

By making innovative applications of big database, the Bank aims to develop comprehensive digital banking services that operate across channels, systems and products, and make financial services as easily accessible as household utilities. With the introduction of custom-tailored financial solutions, the Bank hopes to give every customer the ultimate VIP experience.

### 1.5 Credit Card and Payment

At the end of 2017 E. SUN Bank had 4.57 million credit cards in issuance, making it the third-largest card issuer in Taiwan. With 3.22 million active cards and NT\$ 319 billion consumption on the cards in 2017, all indicators beating market average (market share of issued card and card consumption 11%, and growth rate of active card 6.5%, which are outperformed the system average).

In order to create business value, and taking our customers' needs as a starting point, we are continuing to promote card usage and "wallet share" in accordance with different customer segments, In the World MasterCard credit card sector, E.SUN is now ranked No.1 in number of card and card consumption. Having issued more than 4.1 million co-brand EasyCards and 370 thousand co-brand icash cards. E.SUN is the largest issuing bank, also the only bank that offers cobrand card with the major 4 electronic stored value cards providers.

### 1.6. Investment

The book value of the investments by E.SUN Bank at the end of 2017 stood at NT\$ 13,029 million:

1. The book value of asset at cost method is total of NTD\$533 million. Taipei Forex Inc. (0.81%), Taiwan Futures Exchange (0.45%), Financial Information Service (2.28%), Taiwan Asset Management (0.57%), Taiwan Financial Asset Service (2.94%), Sunny Asset Management Corp. (4.35%), Taiwan Incubator SME Development Corp. (3.44%), Taiwan Finance Corporation (0.41%), EASYCARD Investment Holdings Corporation (4.82%), Alliance Digital Tech Co. (2.16%), Taiwan Mobile Payment Co. (3.00%).

2. The book value of asset at equity method is

total of NTD\$12,496 million. Percentage of share held: 100% shareholdings in Cambodia's Union Commercial Plc; 100% shareholdings in E.SUN Bank (China) Ltd., and Bank Pro E-Service Technology (61.67%).

## 2. Business Plan

In response to Fintech, Asian development, and regional integration as well as evolution of relationship across industries and boundaries, E.SUN will be preparing for its long term strategies with the two wings - innovation and execution.

### 2.1 Corporate Banking

- (1) Followed government policy by supporting SMEs and cultural and creative ventures, E.SUN Bank entered into an MOU with the Small and Medium Enterprise Administration of the Ministry of Economic Affairs and the Taichung City Government to provide assistance to the machine tool industry, which is seeking to upgrade itself to Industry 4.0.
- (2) Draw on such external resources as the SME Credit Guarantee Fund and world-class insurers to further strengthen risk control at large and risk management for overseas lending, thereby keeping up asset quality.
- (3) In conjunction with its expanding overseas operations and cross border service, E.SUN will use information technology and expertise as a foundation, integrate the resource from our FHC, and its brand name and professional workforce as the core of its efforts to meet the service needs of customers.
- (4) Continue to provide a comprehensive range of diverse financial products and services, and helping E.SUN become best partner for companies to succeed.

### 2.2 Consumer Banking

#### (1) Channel management

As of 2017, E.SUN Bank has 138 branches operating in Taiwan, and is continually expanding. By employing FinTech and Big Data analytics, we are improving the effectiveness of the offers we provide, resulting in greater customer satisfaction and loyalty. Alongside physical locations, we have also developed digital channels through the Internet and mobile banking. We embed our services in

the devices our customers use every day, driving significant gains in customer adoption, engagement and satisfaction.

#### (2) Optimization of customer experience

We focus on optimizing customers' experience and improving operating procedures. We aim to provide customers with the best financial solutions and efficiency from the moment they walk into a bank, and support them with 24-hour, uninterrupted self-servicing banking solutions that are readily within reach.

#### (3) Risk Management and Accountability

With the rapid changes of the financial environment, E.SUN has adopted risk management as our core principle. From marketing, credit check to post-lending and interim management, we take effective risk control actions to ensure consistent growth and long-term profitability of our earnings.

### 2.3 Wealth Management

- (1) The Bank strives to offer the best asset allocation from customers' perspective, by gaining insight into the current economic cycle, global markets and customers' needs.
- (2) In terms of fund service, the Bank actively explores innovative products that conform with market trends, such as: preferred share funds (suitable at times of rising interest rate for they feature the benefits of both bond and equity) and retirement-themed funds featuring Smart Beta ETF. Meanwhile, the Bank will continue to promote its smart fund investment package that incorporates regular, fixed/variable sum investments as well as the Bank's proprietary stop-loss, stop-gain and auto-redemption and subscription function to help customers make disciplined decisions and capitalize on investment opportunities.
- (3) With respect to overseas ETF and equity, E.SUN Bank was the first among peers to introduce "SH-HK Stock Connect" as one of the Internet banking functions in 2017, and hence provided customers with more diverse means of transaction.

Meanwhile, the Company continues to shortlist investment prospects such as technology, electric vehicles etc. that conform to current market trends. The Bank has also added overseas preferred share products to its recommended list, for these products feature the benefits of both fixed income and ordinary share that will satisfy investors who prefer to allocate part of their assets in "fixed income-paying" instruments. E.SUN regularly reviews customers' investment portfolios and protects their assets through professional practice and compassion.

- (4) With respect to innovative financial products, E.SUN was the first bank among peers to launch "fund-linked domestic structured instrument" that offers appropriate leverage and separate taxation for customers who desire customization of their financial plans. By introducing products such as overseas bonds, domestic and foreign structured instruments, the Bank aims to develop wealth management relationships with high net worth customers.
- (5) Gain insight into customers' needs; constantly innovate, refine and develop more convenient and diverse trust services to the benefit of customers and the Bank.
- (6) E.SUN was the first bank in Taiwan to introduce a remote fund trading feature called "Invest Now," and the first to incorporate artificial intelligence for "i-Instant Smart Calculation" and online insurance application. In the future, the Bank will continue building faster and more convenient digital banking platforms to bring better service experience to customers.

## 2.4 Digital Banking

Digital banking will progress in line with the three major financial trends described below:

### (1) Financial scene

From online merchants and online games to offline merchants including convenience stores, retail chains, night markets and shopping districts, the Bank aims to work with strategic partners to introduce a payment solution that is useful in all scenarios. Furthermore, by applying big data in precision marketing, the Bank

hopes to direct new customers towards merchants and create a financial scene where the Bank is in a position to help SMEs grow while provide differentiated services to customers.

### (2) Smart banking

By combining big data, smart referrals and AI technology, E.Sun aims to create a proprietary media platform that focuses on serving customers. Furthermore, the Bank will actively engage customers over social media, conducting customer service, digital product marketing, referral and investment consultation over the most popular networks.

### (3) Financial inclusion

By making innovative applications of big database, the Bank aims to develop comprehensive digital banking services that operate across channels, systems and products, and make financial services as easily accessible as household utilities. With the introduction of custom-tailored financial solutions, the Bank hopes to give every customer the ultimate VIP experience.

## 2.5 Credit Card and Payment Services

- (1) Apply data analysis for differentiated customer management by loyalty. Increase the number of active cards and spending amount, and make E.SUN credit cards the priority choice in customers' daily living.
- (2) Optimize digital service and interactive channels for refined consumer experience.
- (3) Escalate cross-selling efforts to strengthen customer relations and maximize value for customers.
- (4) Refine system models and operating procedures for optimal risk-based management.

### 3. Market Analysis

As the current wave of anti-globalization continues to spread, the international political and economic situation has become complex and volatile, and global economic prospects are highly uncertain. Growth in international trade has slowed, numerous "black swan" events have occurred, the global economy has remained weak, and international financial markets have been highly volatile. During the second half of 2016, the global economy began to show signs of gradual improvement, the leading economies made plans to strengthen their fiscal stimulus policies, and emerging market countries enjoyed the start of a rebound, setting the stage for global economic growth. However, the many unknowns still present include US President Trump's policy directions, adjustments in China's economic structure, differences in major countries' monetary policies, and political uncertainty in the Eurozone. As a consequence, the global economy can be expected to be full of challenges in 2017.

#### Global economy in a new low-growth state; economic conditions experiencing a short-term rebound

Many international research organizations have recently made downward revisions in their growth forecasts for the global economy in 2017, which suggests that the global economy lacks stable growth momentum, and has entered a long-term low-growth state. The global economy's performance was not as good as expected in 2016; although the fundamentals of the US gradually improved during the year, momentum is limited. Supported by loosened monetary policy and the depreciation of the euro, the Eurozone is slowly growing. However, affected by structural changes, global economic conditions, and fluctuations in the prices of raw materials, emerging market countries are still experiencing weak growth. In January 2017, the IMF estimated a global economic growth rate of 3.1%, which was a slight drop from the 3.2% growth rate of 2015, and was the lowest growth rate since 2010. Looking ahead to 2017, the US economy will continue stable growth, but political uncertainty in the Eurozone threatens to



derail the areas economic recovery. Benefiting from the rebound in raw material prices, some emerging market countries will experience economic improvement, and their economic growth will rebound after bottoming out. In general, the global economy will maintain the strong growth momentum observed during the second half of 2016, and the IMF forecasts and economic growth rate of 3.4% for the year.

Buoyed by consumer spending, the American economy has regained its growth momentum, and economic data continue to improve during the second of half 2016. Among the signs of recovery are the steady growth of the employment market, and the unemployment rate has gradually fallen from over 6% in 2014 to 4.8% in January 2017. Public sentiment concerning the economy has also grown more optimistic, and the consumer confidence index has risen to 111.8, which is roughly the level before the Great Recession. As a result, consumer spending has risen from 2.8% in November 2015 to 4.5% in December 2016. Furthermore, manufacturing has grown steadily in recent months, and the ISM manufacturing index climbed from 49.4 in August 2016 to 56 in January 2017. However, the capacity utilization rate of 75.5 is still below the long-term average of 80, and private investment has remained weak (private investment dropped by 1.5% in 2016), which indicates that companies still remained conservative concerning

the economic outlook. On the whole, economic fundamentals continue to improve, and the new government's measures to strengthen fiscal policy should boost economic performance. The IMF forecasts that the economic growth rate will rise from 1.6% in 2016 to 2.3% in 2017. Nevertheless, attention must be paid to the effects of the Fed's continuing interest-rate increases and Trump's economic policies.

Both the Eurozone and Japan depend on extremely loose monetary policies to support their economies. The Eurozone's manufacturing continued to expand in 2016, the unemployment rate has fallen from over 12% in 2013 to 9.6%, and customer spending growth has remained around 1.6-2%. In addition, the depreciation of the euro has boosted exports. The economy of the Eurozone as a whole should maintain moderate growth, and the economies of such leading countries as Germany, France, and Spain should all enjoy positive development. Although the impact of Brexit on the British economy has been limited this far, the effects of Britain's exit plan and negotiations will require observation in the future. In addition, due to the representative assembly and presidential elections to be held in the Netherlands, France, and Germany in 2017, as well as structural problems and banks' high loan delinquency rates, political and economy uncertainty remain high in the Eurozone. The IMF forecasts that the Eurozone's economic growth rate will fall slightly from 1.7% in 2016 to 1.6% in 2017. The Japanese economy has remained weak, but may show some short-term improvement as the global economy heats up and the depreciation of the yen stimulates exports. However, household spending has fallen for three years in a row, and consumer commodity prices fell by 0.1% in 2016. As a result, the Japanese economy remains fragile, and will have difficulty improving further without structural reforms. The IMF therefore forecasts that Japan's economic growth rate will fall from 0.9% in 2016 to 0.8% in 2017.

Emerging market countries are generally suffering from weak economic conditions. After several years of structural adjustments, plus fluctuations in raw material and petroleum prices, as well as the Fed's interest rate increases, the economies of most emerging market countries have continued to weaken, and growth rates have remained at a relatively low 4-4.6% level. The World Bank has also pointed out that investment growth in emerging market countries has fallen from 10% in 2010 to 3.5% in 2016, and this trend has been unfavorable for overall economic growth. The output reduction agreement reached by petroleum-producing countries during the second half of 2016 has caused oil prices to rise, and prices of raw materials have also rebounded, which will favor the gradual improvement of economic conditions. However, attention must be paid to the impact of the Fed's interest rate increases. According to the global economic climate indices issued by Germany's IFO economic research Institute in February 2017, the economic climate indices of emerging market economies will continue to suffer negative growth during the first quarter of 2017, and prospects will remain unsatisfactory during the first half of the year. Looking ahead to 2017, as the global economy improves and raw material prices rebound, conditions will be favorable for economic growth in export-oriented nations. The IMF therefore forecasts that emerging market country economic growth rate will rise from 4.1% in 2016 to 4.5% in 2017, which will provide an important driver for global economic revival.

China's structural adjustments are initiating a new economic development model, but the Chinese economy will still depend heavily on the steady growth of infrastructure development in the short term. China is continuing to implement supply-side structural reforms, and its economy is in a relatively long term adjustment phase. The Chinese economy is expected to have an L-shaped trend for at least 3-5 years. Chinese officials have used the media to communicate economic trends and their vision for the future to the public, and hope

to ensure the resolute implementation of reforms at key moments for transformation. Since economic transformation is bringing short-term pain, and because the global economy is stuck in a low-growth mode, China's exports (down by 7.7%), investment (up by 8.1%), and consumer spending (up by 10.4%) remained weak during 2016. In order to maintain economic stability, the Chinese government is relying on fiscal expansion taking the form of infrastructure development, etc. to support the economy. Although China's 2016 economic growth rate of 6.7% within the official 6.5-6.7% growth zone, investment by state owned enterprises grew by 18.7%, while private investment group by only 3.2%. As a result, the phenomenon of "the state advances, the private sector retreats" has continued to intensify, to the detriment of the economy' long-term development. In 2017, the Chinese political economy faces challenges on several fronts. The 19th National Congress of the Communist Party will be held during the second half of the year. In order to maintain the core political stability of the Xi Jinping government, China will take "making progress while ensuring stability" as the keynote of its economic policy, and the country will also adopt active and effective fiscal policies and maintain a stable, neutral monetary policy. However, attention must be paid to the influence of possible American trade protectionism. The IMF forecasts that China's economic growth rate for the year will fall slightly to 6.5%.

China's hidden debt and real estate bubble pose latent economic threats. Chinese government debt is opaque. Although government debt as a share of GDP was only 44% in 2015, the Chinese Academy of Social Sciences has suggested that debt as a share of GDP is actually approximately 249%, and the corporate sector's debt as a share of GDP is approximately 152%, of which state owned enterprises account for approximately 60%. China's overall debt has continued to soar in recent years. But in the face of continued economic weakening, companies have commonly

shifted from investing in their core businesses to investing in real estate, financial products, and overseas mergers and acquisitions, etc., which has been of only limited benefit to the economy as a whole. Chinese banks' nonperforming loans rose to 1.76% in September 2016, while loans under observation climbed to 5.86%. While outsiders have given frequent warnings concerning the dangers of China's debt, because China's foreign debt is a relatively low 13% of GDP, and the savings rate is high (approximately 50%), a currency crisis is unlikely to occur even in the event of severe financial turbulence. China's real estate bubble is another issue of concern. Real estate and infrastructure have been key drivers of economic growth in the past, and real estate markets have been closely linked to local government performance. With the government easing its real estate market control measures, Chinese home prices continued to rise in 2016, and the phenomena of extremely high-price land sales and divorce-selling appeared. In particular, Hefei (46% growth), Xiamen (41% growth), and Nanjing (39% growth) had the largest price increases, while real estate prices in such first-line cities as Beijing, Shanghai, Guangzhou, and Shenzhen grew by 20-30%. In order to prevent the real estate market from overheating, the government has strengthened measures controlling purchases and lending, and has made "homes are for living, not for speculation" the keynote of its 2017 real estate policy. As a result, short-term real estate market risk can be considered to be under control.

### Improving external demand, moderate internal demand: Domestic economy expected to rebound

While the domestic economy has entered a low-growth phase, gradual improvement is expected in 2016. Due to poor exports and investment, the economy experienced three quarters of negative growth from the third quarter of 2015 to the first quarter of 2016. Afterwards, following gradual recovery in the US and the establishment of a bottom for the Chinese economy, the economic growth rate increase steadily

on a quarterly basis. Stimulated by strong demand for information and communications products and the rebound in the price of oil and raw materials, export growth re-entered the positive zone during the second half of 2016, and the contraction in exports for the year as a whole shrank to 1.7%. However, the value of exports had not yet returned to the level of 2013-2014. Manufacturing output continued to increase during the year, and manufacturing PMI stayed in the range of 53-56 after March 2016. Growth in private investment increased from 0.2% during the first quarter to 7.2% during the fourth quarter, and this growth was primarily driven by the semiconductor and aerospace industries. Consumer spending enjoyed moderate growth, but uncertain global economic conditions and the weakening real estate market caused the consumer confidence index to fall. Nevertheless, due to growth in automotive, department store, and convenience store sales, retail sales grew by 1.9%, which was notably better than the 0.3% growth in 2015. Because of the improvement in the domestic economy's fundamentals during the second half of the year, the Central Bank of China maintained the interest rate unchanged in September, which ended four consecutive rate reductions. The Directorate General of Budget, Accounting & Statistics has forecast that the economic growth rate increased from 0.72% in 2015 to 1.5% in 2016.

Some experts and scholars have described Taiwan's economic growth as "idling," and the fluctuations from hot to cold show that the recovery still lacks momentum. Looking ahead to 2017, as the global economy gradually recovers, and as new high-tech products are introduced, exports will continue to enjoy stable growth. However, attention must be paid to the effects of protectionism. Consumer spending is weak, and although the recovering economy will boost consumers' expenditures, rising commodity prices will also affect consumer spending, and it is therefore forecast that consumer spending growth will fall from 2.1% to 1.7%. Private investment will be the key to stimulating the economy; apart from the major investments being made by the semiconductor and

aerospace industries, the uncertain economic outlook will cause companies to be conservative with their investments, and it is forecast that private investment growth will fall from 3.1% to 1.9%. In general, the economy will grow slowly, and uncertainty will remain high. The Directorate General of Budget, Accounting & Statistics forecast an economic growth rate of 1.92% for 2017, which will make this the third year with a growth rate of under 2%.

### Spreading anti-globalism; a future full of uncertainty

Current variables include Brexit, Trump's election as president, the waves of anti-globalization sweeping Europe and America, and the volatility of global political and economic conditions. Stimulated by technological progress, globalization made rapid advances during the 1980s, which fostered regional economic integration and a wave of prosperity for the global economy. However, under the prevailing global division of labor, the middle class has been gradually disappearing in developed countries. In the wake of the Great Recession and European debt crisis, the global economy has entered a new slow-growth phase. Although the central banks of leading countries have adopted loose monetary policies in order to stimulate the economy, this has caused the gap between rich and poor to expand, and has fueled a surge in anti-globalization that has spread from Europe to the United States. China has taken advantage of this opportunity to position itself as the leader of globalization. Apart from consolidating the gains from globalization and maintaining the world economic order, this role has boosted China's economic and political status, and created new conflict between East and West.

Trump is the current representative of the anti-globalization movement, and opposes economic deregulation and regional integration under his slogan of "America first." However, Trump's policies, which include opposition to the TPP, promotion of protectionism, and encouragement of manufacturers to return to the US, have the potential to injure the fragile global economy. Furthermore, Trump has also vowed to "make America great again," adopted a strategy

rapprochement with Russia and containment of China, and altered the tone of America's involvement in international political and military affairs. Trumpism chiefly focuses on the economy, and economic issues involving China will be a key aspect of American foreign policy in the future. For instance, Trump threatened to designate China a currency manipulator and ignite a US-China trade war after his inauguration. Due to the complex political and economic relationship between Taiwan and China, the Trump presidency ensures that the future will be full of uncertainty. Furthermore, Trump's administrative team includes many extremists, such as his national security advisor, chief of strategy, senior advisers, secretary of defense, and CIA head, which increases policy uncertainty. After the end of Trump's first 100 days, which constitute an observation period, uncertainty may be even greater during the second half of the year.

#### The Fed has initiated a rate increase cycle; financial market in a state of volatility

In 2016, turbulence in financial markets, Britain's decision to leave the EU, and instability in the US economy influenced the Fed's interest rate decisions. After increasing the interest rate one notch in December 2015, the Fed consequently adopted a go-slow policy. After the US unemployment rate fell to a low level, and consumer price increases continue to rise too close to the 2% target, the Fed again increased interest rates by one point in December 2016, and expects that it may increase the rate by three more points in 2017. If Trump's policies fan inflation, the Fed may increase the interest rate at an even quicker pace. However, since the Fed has proposed the ending of quantitative easing, if the Fed begins to shrink its assets sheet, this may cause fluctuations in financial markets to increase. In 2016, due to expectations that the Fed would increase interest rates, the US dollar index rose by 6% to 102.21. As the American economy steadily recovers, Fed continues to raise interest rates, and Japan and the Eurozone maintain ultra-loose monetary policies, the US dollar should continue to appreciate in 2017. However, Trump favors a weak dollar, and has variously criticized the use of currency depreciation to harm US companies by

China, Japan, and Germany. In addition, the US dollar was weak at the start of 2017. These trends will make the value of the US dollar difficult to predict this year.

The Chinese yuan has had a depreciating trend in recent years. With the Chinese economy weak, the US dollar strong, and the People's Bank of China implementing a loosening policy, the yuan depreciated by 6.9% in 2016 (compared with 4.9% in 2015). In the wake of the Hangzhou G20 conference and the yuan's formal entry into the SDR, the yuan depreciated by a noteworthy 4.1% during the fourth quarter. This caused pressure from the outflow of funds to increase, and China's foreign exchange reserves fell from US\$4 trillion to US\$3 trillion, which caused further depreciation of the yuan. The market also experienced a tightening of liquidity, and Shibor and CNH Hibor experienced large fluctuations, which tested the ability of the People's Bank of China to maintain control. For its part, the NT dollar has remained fairly strong. With the fundamentals of Taiwan's economy improving, and international funds continuing to enter the country, the NT dollar to US dollar exchange rate rose by 2.4% in 2016. In spite of the fact that the NT dollar to US dollar exchange rate continued to remain firm at the start of 2017, the Fed's initiation of an interest increase cycle implies that the NT dollar will maintain dynamic stability.

## 4. Financial Products R&D and Business Status

### Corporate Banking

E.SUN's Corporate Banking geared toward creating value for customers, improving financial service processes and efficiency, and developing customized products and services. Corporate Banking has long been dedicated to promoting the development of SMEs, and has made E.SUN the "first choice for SMEs." Apart from being awarded the "Best SME Finance Award (Award of Excellence)" in the Taiwan Academy of Banking and Finance's "8th Taiwan Banking and Finance Best Practice Awards." Corporate Banking has also achieved excellent results in promoting credit guarantee fund services, and received the "Credit Guarantee Partner Award (Headquarters)" in 2016, which made E.SUN the only member of the financial industry to receive this honor for 11 consecutive years (2005-2015). We will continue to expand our customer base in Taiwan/Hong Kong/China and overseas, develop our overseas syndicated loan and project financing business, and provide secure and convenient digital financial services, as we transform ourselves into a distinctive Asian bank.

### Consumer Banking

Under the wave of digital evolution, E.SUN Bank has dedicated itself to introducing innovative, customer-oriented financial services, and delivering a faster and more convenient experience. In terms of consumer banking, we have introduced a digital lending platform known as the "e-Click Series." The platform incorporates a wide range of products from personal loan, mortgage, to corporate loan. Using a mobile device or PC, customers may inquire about their loan limits, and interest rates completely online. Other services include application submission, contract signing and identity verification. It gives customers total transparency over their borrowing terms and conditions as well as access to speedy disbursement. In self-service banking, E.SUN has expanded its service network, and incorporated more transaction features to provide a more personalized and interactive experience. By offering a combination of precise and appropriate service, we aim to establish ourselves as our customers' most preferred financial service provider.

### Wealth Management

a. We are continuing to strengthen our financial management team, and are relying on modular training courses to enhance the ability of our financial management personnel to serve customers, and to provide superior, professional financial management services.

- b. Our financial consultant team consist of specialists in various areas of finance, and we can provide customers comprehensive consulting services integrating bank-wide resources.
- c. Our highly-effective from customers perspective with ensures that the specialist team at our headquarters convenes a meeting whenever an unexpected event occurs in the market or an important economic indicator makes a major change. At these meetings, we discuss the market's possible reaction and our response methods, and we send SMS instantly to notify our most influential customers within 24 hours of the event.
- d. We rely on our stringent product review processes and selection mechanism to continuously introduce innovative financial products providing our customers with a wide range of product choices.
- e. In order to meet our customers' need for safeguards at different stages of their lives, we strive to provide professional, comprehensive insurance planning and after-sales services, such as an innovative account framework for discretionary investment policies, and two-year whole-life insurance with repayment of principal, which is rare in the market, and we offer customers a wide range of diverse product options.
- f. We continue to use the power of technology to create digital wealth management services offering customers an entirely new wealth management experience.

### Digital Banking

E.SUN is proud to present digital banking products mainly in the following two areas:

#### (1)Smart services:

a. Personal financial advisor: E.SUN Bank was the first bank in the Greater China Region to use popular social networks such as Facebook and LINE for interactive financial service. In doing so, the Bank is able to offer uninterrupted one-stop service from online to offline, and make banking service as accessible as household utilities.

b.i-Instant: By incorporating big data analysis technologies such as AI and keyword search, the Bank is able to provide a 24-hour online trial calculation service that can be used to customize investment portfolios that meet customers' investment targets.

#### (2)e-Click Series:

a.e-Click Loan Application: By incorporating big data into online lending, it only takes customers 3 minutes to

complete an application. Furthermore, loan-related processes including trial calculation, applications, due diligence and disbursement have all been proceeded online.

b.e-Click Online Card Application: Through e-services, customers can apply for credit cards themselves in 1 minute.

c.e-Click Mortgage: It used to take customers a week's time to request for an appraisal; now the process can be completed in as little as 3 minutes online.

d.e-Click Foreign Currency: E.SUN was the first bank to offer personalized push message service for foreign currency rates. Using AI-powered technology on social network, the time taken to complete a foreign exchange transaction over Internet banking has been reduced to 3 minutes.

e.e-Click Corporate Loan: E.SUN was the first bank to introduce online corporate loan quotation and application service, giving business owners access to online, immediate and exclusive limit and rate quotations 24 hours a day, 365 days a year.

### (3) Innovative payment services

a.Shopping on Taobao: E.SUN's exclusive service allows customers to use their physical accounts in Taiwan—a common and simple instrument they are China's largest C2C and B2C websites (Taobao and Tmall).

b.Diversified payment platform: E.SUN Bank has been working with the 4 major local convenience store chain as well as renowned retail chains, SMEs and shopping districts to introduce the first 4th-party payment service (where payment and collection data is consolidated across multiple merchants) in Taiwan. This new service quickly opens Taiwanese merchants to major e-wallet solutions local and abroad (such as Alipay, E.SUN Wallet, JKO Pay, Gama Pay etc.), which brings convenience to consumers and solves collection problems for merchants, while at the same time increases the popularity of electronic payment in Taiwan.

c.E.SUN Global Pay: E.SUN's exclusive partnership with PayPal enables Taiwanese vendors to withdraw funds from the latter's accounts effortlessly.

d.E.SUN Trade: Taiwanese vendors can sell their goods to Mainland China's consumers online.

e.QR-Code Payment: E.SUN took the lead to give free and independent travelers from Mainland China the option of using a familiar instrument to shop in Taiwan: paying for their purchases on the Alipay platform.

### (4) New Mobile Banking App

To ensure the best experience for the smartphone

generation, the Bank's home page has been designed with a "waterfall interface" that enables customers to browse through account information as intuitively as they would when viewing social network APPs. Furthermore, account information is presented in graphical form to minimize the need for conventional banking knowledge from customers, whereas the introduction of new certification methods and biometrics allows customers to log in under 3 seconds for the best experience.

### Credit Card and Payment

a.In term of credit card and payment sector, an unusual aspect of E.SUN's World Mastercard is to be found in the E.SUN Golden Seed Project. Parts of cardholders' annual fees and general payments are used as donations toward setting up libraries for elementary schools in remote areas. As of end of 2017, E.SUN Bank has opened 125 libraries at the remote area, we will continue to execute related CSR activities and provide differentiated service to create VIP customers' value.

b.Our newly-introduced Happiness PLUS Titanium Card, together with our HappyCash stored value card and Happy Go points function, provides female customers with exclusive benefits, ensuring that female cardholders feel fortunate and cared for.

c.Our exclusive electronic wallet—the "E.SUN Wallet" app—is Taiwan's first HCE cell phone credit card, and uses tokens to let users download secure storage elements to their cell phones. This feature provides consumers with secure and convenient mobile payment experience, and is integrated with a barcode scanning payment function and other value-added services, which realizes the ideal of "with a smartphone in hand, your digital wallet is ready to go."

d.The launch of E.SUN VISA Infinite for Doctors combines credit card, Taiwan Medical Association membership card and EasyCard all in one; the product is intended to strengthen banking relationship with physicians and offers cashback as well as exclusive privileges as a member of Taiwan Medical Association.

e.Our "diversified credit card acquisition" service provide merchants with diversified, integrated credit card and stored value card acquisition services. In addition, our mPos mobile cash register offers one-stop convenience and a variety of payment acceptance methods. These products and services enhance the efficiency of transaction processes, improve the customer experience,

and provide merchants with high-value payment collection solutions.

f. We are the leading issuer of stored value cards among banks in Taiwan. In particular, the E.SUN ETC Easy Card and E.SUN icash card can satisfy users' need for small, convenient payments. We also employ UUPON and OPENPOINT points exchange activities to increase customer stickiness.

g. Through the use of statistics and data, the Bank is able to gain insight into customers' preference and their preferred means of transaction, which provide useful knowledge for the development of physical and EC channels, and enable E.SUN Bank to introduce the right credit card privileges to satisfy the needs of broader customer groups and deliver the best consumer experience.

#### Risk management

In terms of risk management, the Bank constantly explores ways to enhance its credit risk management system, and develops scientific and rigorous methods to validate the credit assessment models it has developed. Through the use of objective and credible tests, the Bank constantly monitors the effectiveness of its credit assessment practices and the quality of its credit portfolio, and is able to progressively refine and expand its models for broader applications. The Bank also engages an external third party to validate its credit models. With respect to market risk, the Bank has refined its VaR assessment approach and expanded the scope of financial products to include foreign currency positions, IRS and CCS. Furthermore, the Bank adopted the historical simulation approach to replace the old variance-covariance approach, and actual distribution to replace assumptions of normal distribution for more effective capture of fat tails, which in turn produces more reasonable VaR. With regard to the control of money laundering, which has always been an important international issue. In the wake of the 9/11 terrorist attacks in 2001, combating the financing of terrorism became a major international trend in the control of money laundering. Money laundering and the financing of terrorist activities have profoundly negative effects on

society, the economy, and the entire financial system. If the financial system of any particular country or region is unstable, and lacks effective financial oversight and implementation, the risk and negative impact of money laundering and terrorist funding activities can easily increase, including such harmful effects as increased crime and corruption, lowering national prestige, and increased social costs. Furthermore, money laundering and terrorist financing activities can increase the financial sector's operating risk, legal risk, reputation risk, and even funds concentration risk, posing great threats to sound development. Because of this, in compliance with international guidelines and the requirements of the competent authority in Taiwan, this bank is strengthening KYC procedures, implementing due diligence reviews of customers, and preventing wrongdoers from using the Bank's financial products and services to conduct money laundering or to finance terrorist activities.

E.SUN Bank's R&D Expenditures in recent two years: Unit: NT\$ thousand

| Item             | 2017    | 2016    |
|------------------|---------|---------|
| R&D Expenditures | 345,841 | 246,469 |

## 5. Human Resource

### New Milestone for E.SUN and E.SUN Employees

With the ongoing wave of globalization, diversification and digital revolution, competition between businesses has intensified to unprecedented levels, making growth and sustainability the two critical yet difficult challenges to all businesses alike. As E.SUN approaches its third decade, the organization will continue to strengthen its roots in Taiwan while taking progressive steps to expand into Asia. To this end, the organization has set its goals not only to improving overall performance, but to lead the industry in financial innovation as well. Due to rapid changes in the financial environment, new financial technologies (Fintech) have emerged and opened up opportunities for innovative service. As part of our strategy to become the Fintech leader, E.SUN has been making preparations ahead of its time and recruiting Fintech talents needed for the future. By expanding digital recruitment channels, the Bank has the means to reach talents that can make a difference.

Driven by upcoming Bank 3.0 transformation and rapid growth in overseas business, E.SUN's recruitment strategy in recent years has been focused toward IT, digital, and overseas talents. Between 2013 and 2017, the percentage of IT/digital talents within the organization had increased from 4.7% to 10.35%, whereas the number of locally hired overseas talents had increased from 268 to 678 by 153%.

### Building Competitive Talent Base and Becoming the Unknown Champion in the Banking Industry

In order to find partners that share the organization's strategies and visions, E.SUN has opened itself to innovative young talents of different professions. Its employee base currently has an average age of only 32.1 years; 22.6% of whom had graduated from the nation's top-10 universities (such as: NTU, NCCU, NTHU, NCTU, NCKU, NSYSU.....), and 6 of whom held a Ph.D degree. The Bank has a total of 107 management associates (MA), 19 technological management associates (TMA), 11 qualified lawyers and 17 qualified accountants. Together, they provide the advantage the organization needs to compete in the world.

"Talent development" is the key to building a long-lasting business, as well as E.SUN's source of



competitiveness. With the implementation of a robust talent training system, E.SUN employees are opened to broader learning opportunities and career development. E.SUN Bank aims to build the organization as "employees' home away from home," which is why it provides employees with the best work environment possible and empowers them to shape their own future. In 2017, the Bank held 244 internal training sessions of various topics, and assigned employees to 278 external training programs. Training enrollment count totaled 87,109, which means that each employee attended 10.6 training sessions on average. E.SUN utilizes a multitude of learning channels to help employees develop life-long learning habits. We long to see self-motivated learning and growth within each employee, and their commitment to accumulate wisdom and develop the versatility needed for sustainable business management.

"Legacy and mentorship" have long been the value and method that E.SUN follows in training the next generation of talents. Through the guidance of senior co-workers, every E.SUN employee is able to learn and blend in to the environment, where they can fully appreciate the Bank's corporate culture of "teamwork, harmony and joy." This mentorship system is what provides our top-performing teams the competitiveness they need to succeed. Through uses of compensation, welfare, and employee care schemes, the Bank takes good care of its employees and family members, giving everyone the peace of mind they need to strive for success and contribute their share of social responsibilities. E.SUN prides itself for having developed a distinctively different corporate culture from peers. In a time of globalization and rapid changes, this culture should provide the organization with the execution and innovation needed to achieve new milestones.

## 5.1 E.SUN Bank Human Resource information

| Item                           | Year                     | Until to 2018.3.20 | 2017   | 2016   |
|--------------------------------|--------------------------|--------------------|--------|--------|
| No. of Employees               |                          | 8,400              | 8,442  | 8,197  |
| Average Age                    |                          | 32.3               | 32.1   | 31.6   |
| Average Years of Service       |                          | 7.4                | 7.2    | 6.8    |
| Educational Background (%)     | Master's                 | 24.2               | 24.2   | 23.1   |
|                                | Bachelor's               | 70.5               | 70.6   | 71.3   |
|                                | College                  | 4.5                | 4.5    | 4.9    |
|                                | High School (Vocational) | 0.8                | 0.7    | 0.7    |
| Number of Professional License | Bank                     | 24,180             | 23,913 | 23,227 |
|                                | Insurance                | 9,674              | 9,614  | 9,023  |
|                                | Security                 | 7,263              | 7,239  | 7,003  |
|                                | Others                   | 1,088              | 873    | 486    |

## 5.2 Advanced Training for Employees

- (1) In accordance with its employee training guidelines, E.SUN arranges training and education opportunities for its employees each year.
- (2) Based on the Bank's employee training and study guidelines, the supervisors in each department select employees to attend training courses or workshops either in Taiwan or overseas.
- (3) In 2017, the Bank offered 244 classes under its internal training program and sent employees to attend another 278 classes organized by other specialized institutions. Combined, attendees totaled 87,109.
- (4) Education and training expenses amounted to 0.88% of total revenue in 2017.

## 5.3 Number of Non-Managerial Level Staff, Their Average Expense on Welfare and the Difference Comparing to the previous year

The number of non-managerial level staff was 7,817, their average expense for welfare were NT\$1.19 million per person, which was NT\$64,237 more comparing to 2016, a 5.68% increase in aggregate expense for welfare.

## 5.4 Advocacy and Implementation of Employee Behavior and Ethics Code Concepts

- (1) E.SUN's employees must sign a pledge to fulfill the E.SUN employee service and behavior guidelines and regulations.
- (2) E.SUN will disclose these guidelines and regulations both on internal and external websites to enable employees to browse through and familiarize with the information at will.
- (3) E.SUN will periodically publicize and provide online quizzes for its employees on the information included in the guidelines and regulations.
- (4) We conduct annual online tests of E.SUN employee service regulations and rules of conduct, and all colleagues must participate. We also ask colleagues to read online lessons, and we include our units' legal compliance test participation rates, test scores, and make-up test implementation status among our legal compliance performance assessment scoring items.
- (5) Strengthen management to ensure the security of personal information is in line with the Personal Information Protection Act.

## 6. Corporate Responsibility and Ethics

Fulfillment of its corporate social responsibilities and dedication to improving society are E.SUN's promise to this country. E.SUN's has long actively dedicated itself to social welfare, environmental sustainability, education, athletic activities, volunteer service, and art and cultural activities. Starting with our individual selves, we seek to realize our corporate culture of "contentment, cherishing relationships, and gratitude," while also making use of our financial skills, and we encourage employees to participate vigorously in activities. We hope that the efforts of our colleagues and company will inspire the general public and our corporate partners to pitch in and contribute to long-term, systematic campaigns to fulfill all of our corporate social responsibilities.

In the area of social welfare, we continue to implement the "E.SUN Golden Seeds Project" and "E.SUN Concern for Schoolchildren Program". Besides, we have issued "E.SUN volunteer passports" and encouraged E.SUN employees to take action and participate in public welfare activities. We also held the "E.SUN Bicycle Ride Around Taiwan: Sending Love Everywhere" activity, in which E.SUN donated NT\$10,000 to the "Concern for Schoolchildren Program" for every kilometer volunteers cycled, and donated a total of NT\$10 million. We are continuing to sponsor the "Hualien Nanan Village Shift to Organic Rice-Growing" project, which is helping farmers and providing real support for agriculture in Taiwan. As of the end of 2016, 110 E.SUN libraries had been established through our donations.

In the area of environmental protection, we continued to adopt the ISO 14001 environmental management system and ISO 50001 energy management system; completed ISO 14064-1 greenhouse gas inventories at our headquarters



building, Boai Building, Summit Campus, and all branches nationwide; completed an ISO 14046 organizational water footprint inventory; and held 20 talks as part of the "Bear Love: E.SUN Central Taiwan Black Bear Conservation" program. We have further vigorously taken up the cause of many domestic and foreign environmental protection activities, and have joined forces with global advocates to promote energy and reduction of carbon emissions.

With regard to education, we hope to provide outstanding students with fair, complete, and worry-free educational resources. We have issued "E.SUN Scholarships for Outstanding Managerial Talents" to 90 outstanding students over the course of 12 years. We have teamed up with National Taiwan University, National Chengchi University, National Tsinghua University, and National Chiao Tung University to establish the "E.SUN Academic Award," which is helping to boost domestic standards of management research. We worked together with the Data Science in Taiwan Conference and Taiwan IBM to jointly hold the "E.SUN Campus Hackathon, which gave students practical corporate tactical experience, and planted seeds of innovation for the development of financial technology in Taiwan.

In the area of sports, in order to promote the development of youth baseball in Taiwan, we have used systematic approach to establish the "E.SUN Youth Baseball Development Fund" and have planned a series of E.SUN Cup youth baseball development activities, including the E.SUN Cup National Youth Baseball Championship, E.SUN Youth Baseball Training Camp, E.SUN High School Baseball Camp on Sports Injury Prevention and Rehabilitation, and Caring for Baseball Teams in Remote Areas. These activities have helped provide young baseball players in Taiwan with a stage on which they can strive to realize their dreams.

In addition, we are continuing to hold regular "One simple act of love can inspire others to love" blood donation drives and the "Accompanying Kids as the Grow" young child concern activity. Thanks to the commitment of E.SUN personnel and E.SUN volunteers nationwide, we are helping even more

people in need and spreading love everywhere it is needed. We will continue to plant the seeds of love and concern throughout the country, and ensure that E.SUN volunteers can achieve even greater results!

E.SUN Commercial Bank has made a long-term commitment to fulfilling its corporate social responsibilities to the full extent of its ability, and is taking concrete actions to work with others to make Taiwan a better place!

## 7. Information of Environmental Expenses.

In the recent fiscal year, as of printing date of the annual report, the amount of damage (including reparation) and penalty is zero.



## 8. Employee Relations

**E**mployee benefit measures, retirement system, and state of actual implementation; labor-management agreements, and various measures taken to maintain employees' rights and interests.

### 8.1 Employee benefit measures and implementation:

- (1) Labor insurance: The Bank pays for 70% of premiums, employees pay 20%.
- (2) Health insurance: The Bank pays 60% of premiums, employees pay 30%.
- (3) Group insurance: Employees enjoy group accident insurance, life insurance, hospitalization, and accident medical insurance, such as when emergencies and accidents occur while employees are overseas, and can also enjoy international support services. Premiums are paid by the Bank.
- (4) Business travel group insurance: All employees stationed overseas or who must travel overseas for business enjoy business travel group insurance, which includes accident insurance, accidental injury medical insurance, overseas emergency illness hospitalization, and overseas emergency outpatient and emergency treatment.
- (5) Employee bonuses: Employee bonuses are provided as specified in the Bank's articles of incorporation.
- (6) Paid leave: better than the requirements of the Labor Standards Law. Employees who have worked for more than three months are entitled to paid leave proportional to passage within one year.
- (7) An employee benefits committee is established to implement various employee welfare measures and programs.
- (8) Employee stock ownership trusts program. The Bank places great emphasis on employees' mental and physical health. Besides the mentioned benefit measures, we also provide employees with free health check-ups; we demonstrate active concern for our employees, and strive to create a superior work environment.

### 8.2 Retirement system and state of actual implementation

In accordance with the Labor Standards

Law and Labor Pension Act, etc., the Bank provides a comprehensive retirement system, and reserves monthly contributions to the old retirement pension account at Bank of Taiwan. For employees who adopted the new retirement system, the Bank contributes 6% of employees' salaries to the Bureau of Labor Insurance on a monthly basis.

### 8.3 Labor-management agreements and measures taken to maintain employees' rights and interests

The Bank handles the rights and interests between labor and management in accordance with relevant laws and regulations. Labor-management conferences are held regularly to respond to employee appeals. Communications are easily accessible, employees' opinions are valued, and labor-management relations are harmonious.

Losses suffered due to labor-management disputes during the most recent year and up to the date of printing of the annual report, and disclosure of current and possible future estimated losses and response measures:

None.

### Work environment and employee personal safety protection measures

- (1) The Bank has established security systems and security personnel in all of its business premises, and is continuing to strengthen training in an effort to effectively maintain safety of workplace, employee, and customer.
- (2) In order to promote the health and safety of all employees, the Bank has made labor health and safety management plans and health and safety work rules, held labor health and safety committee meetings, implemented occupational health and safety policies, and regularly arranged for various units' occupational health and safety executives, first aid personnel, and fire safety management personnel to receive relevant training. We further provide general health and safety in-service training to other employees as part of our efforts to enhance employees' health and safety consciousness and achieve the goal of a zero-accident workplace.

## VI. Financial Information



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# 1. Condensed Financial Statements from 2013~2017

## (1) Condensed Balance Sheet (Consolidated)

Unit NT\$1,000

| Item                                                                               | Year                | Financial data 2013-2017 (Note1) |               |               |               |               |
|------------------------------------------------------------------------------------|---------------------|----------------------------------|---------------|---------------|---------------|---------------|
|                                                                                    |                     | 2017(Note 3)                     | 2016(Note 3)  | 2015 (Note 3) | 2014 (Note 3) | 2013 (Note 3) |
| Cash and cash equivalents, due from the central bank and call loans to other banks |                     | 131,042,367                      | 99,446,114    | 103,947,460   | 89,599,108    | 79,225,351    |
| Financial assets at fair value through profit or loss                              |                     | 407,970,461                      | 366,077,137   | 348,549,110   | 291,623,957   | 283,198,494   |
| Available-for-sale financial assets                                                |                     | 170,204,638                      | 141,099,283   | 129,776,329   | 84,815,997    | 71,157,160    |
| Derivative financial assets for hedging                                            |                     | 0                                | 0             | 0             | 0             | 0             |
| Securities purchased under resell agreements                                       |                     | 0                                | 173,470       | 896,844       | 152,758       | 0             |
| Receivables, net                                                                   |                     | 83,129,858                       | 75,992,232    | 71,298,309    | 65,391,506    | 56,093,380    |
| Current tax assets                                                                 |                     | 5,054                            | 0             | 0             | 138,082       | 159,549       |
| Assets held for sale, net                                                          |                     | 0                                | 0             | 0             | 0             | 0             |
| Discounts and loans, net                                                           |                     | 1,211,071,275                    | 1,118,148,669 | 1,021,994,720 | 934,613,524   | 828,238,170   |
| Held-to-maturity financial assets, net                                             |                     | 3,078,813                        | 3,616,960     | 5,289,839     | 5,915,792     | 8,593,699     |
| Investments accounted for using equity method, net                                 |                     | 0                                | 0             | 0             | 0             | 0             |
| Restricted assets                                                                  |                     | 0                                | 0             | 0             | 0             | 0             |
| Other financial assets, net                                                        |                     | 9,426,393                        | 27,301,621    | 40,563,130    | 49,961,102    | 15,499,801    |
| Properties and equipment, net                                                      |                     | 27,558,614                       | 25,785,381    | 26,117,062    | 20,247,436    | 18,486,668    |
| Investment properties, net                                                         |                     | 2,236,989                        | 2,295,788     | 755,735       | 923,833       | 1,057,348     |
| Intangible assets                                                                  |                     | 6,138,716                        | 6,162,335     | 5,881,172     | 5,622,067     | 5,457,944     |
| Deferred tax assets, net                                                           |                     | 926,378                          | 423,706       | 484,248       | 113,386       | 181,998       |
| Other assets                                                                       |                     | 3,547,241                        | 3,608,695     | 4,847,412     | 2,825,666     | 1,563,680     |
| Total assets                                                                       |                     | 2,056,336,797                    | 1,870,131,391 | 1,760,401,370 | 1,551,944,214 | 1,368,913,242 |
| Due to the Central Bank and other banks                                            |                     | 66,652,215                       | 52,516,006    | 71,170,130    | 58,199,621    | 47,645,621    |
| Funds borrowed from the Central Bank and other banks                               |                     | 0                                | 0             | 0             | 0             | 0             |
| Financial liabilities at fair value through profit or loss                         |                     | 43,359,847                       | 42,091,703    | 35,836,236    | 22,494,142    | 5,838,296     |
| Derivative financial liabilities for hedging                                       |                     | 0                                | 0             | 0             | 0             | 0             |
| Securities sold under repurchase agreements                                        |                     | 12,200,468                       | 8,881,723     | 8,034,391     | 13,117,523    | 6,254,291     |
| Payables                                                                           |                     | 26,406,994                       | 23,638,238    | 18,073,164    | 18,261,090    | 15,554,501    |
| Current tax liabilities                                                            |                     | 1,382,186                        | 1,235,474     | 890,912       | 863,108       | 409,930       |
| Liabilities directly associated with assets held for sale                          |                     | 0                                | 0             | 0             | 0             | 0             |
| Deposits and remittances                                                           |                     | 1,713,175,352                    | 1,559,551,047 | 1,459,086,105 | 1,284,727,612 | 1,157,482,350 |
| Bonds payable                                                                      |                     | 36,750,000                       | 42,250,000    | 44,950,000    | 43,800,000    | 47,500,000    |
| Preferred stock liabilities                                                        |                     | 0                                | 0             | 0             | 0             | 0             |
| Other financial liabilities                                                        |                     | 5,949,739                        | 9,654,553     | 1,864,035     | 2,349,300     | 2,195,311     |
| Provisions                                                                         |                     | 474,835                          | 417,808       | 471,382       | 313,599       | 380,251       |
| Deferred tax liabilities                                                           |                     | 697,535                          | 924,744       | 1,260,329     | 781,528       | 745,553       |
| Other liabilities                                                                  |                     | 2,029,857                        | 1,935,565     | 1,639,584     | 1,528,846     | 1,452,548     |
| Total liabilities                                                                  | Before distribution | 1,909,079,028                    | 1,743,096,861 | 1,643,276,268 | 1,446,436,369 | 1,285,458,652 |
|                                                                                    | After distribution  | (Note2)                          | 1,747,715,861 | 1,646,130,536 | 1,449,572,305 | 1,287,046,652 |
| Equity attributable to owners of the Company                                       |                     | 147,144,538                      | 126,370,891   | 116,391,310   | 104,722,892   | 82,750,226    |
| Retained earnings                                                                  | Before distribution | 83,121,000                       | 72,628,830    | 66,840,000    | 61,360,000    | 49,850,000    |
|                                                                                    | After distribution  | (Note2)                          | 77,081,000    | 72,187,000    | 65,440,000    | 54,200,000    |
| Other equity                                                                       |                     | 24,865,967                       | 19,837,781    | 19,139,073    | 17,825,058    | 12,573,696    |
| Total equity                                                                       | Before distribution | 38,794,234                       | 33,861,600    | 29,012,240    | 24,505,503    | 20,170,387    |
|                                                                                    | After distribution  | (Note2)                          | 24,790,430    | 20,810,972    | 17,289,567    | 14,232,387    |
| Other equity                                                                       |                     | 363,337                          | 42,680        | 1,399,997     | 1,032,331     | 156,143       |
| Treasury stock                                                                     |                     | 0                                | 0             | 0             | 0             | 0             |
| Non-controlling interests                                                          |                     | 113,231                          | 663,639       | 733,792       | 784,953       | 704,364       |
| Total equity                                                                       | Before distribution | 147,257,769                      | 127,034,530   | 117,125,102   | 105,507,845   | 83,454,590    |
|                                                                                    | After distribution  | (Note2)                          | 122,415,530   | 114,270,834   | 102,371,909   | 81,866,590    |

Note1: All financial statements above have been audited and certified by accountants.

Note2: The 2017 earnings distribution proposal is pending resolution of the shareholder meeting.

Note3: Based on certified financial statements from previous years.

## (2) Condensed Statement of Comprehensive Income (Consolidated)

Unit:NT\$1,000, Except Earnings Per Share

| Item                                                                 | Year | Financial data 2013-2017 (Note) |              |              |              |              |
|----------------------------------------------------------------------|------|---------------------------------|--------------|--------------|--------------|--------------|
|                                                                      |      | 2017 (Note)                     | 2016 (Note)  | 2015 (Note)  | 2014 (Note)  | 2013 (Note)  |
| Interest revenue                                                     |      | 32,656,734                      | 29,530,082   | 29,636,188   | 26,830,870   | 22,330,735   |
| Interest expenses                                                    |      | (12,641,898)                    | (11,111,075) | (12,385,430) | (11,544,801) | (9,443,827)  |
| Net interest                                                         |      | 20,014,836                      | 18,419,007   | 17,250,758   | 15,286,069   | 12,886,908   |
| Net revenues and gains other than interest                           |      | 24,843,862                      | 21,858,055   | 18,700,844   | 15,402,392   | 13,072,553   |
| Total net revenues                                                   |      | 44,858,698                      | 40,277,062   | 35,951,602   | 30,688,461   | 25,959,461   |
| Bad-debt expenses and provision for losses on guarantees             |      | (3,868,941)                     | (3,462,064)  | (3,565,789)  | (2,033,689)  | (1,706,514)  |
| Operating Expenses                                                   |      | (24,036,459)                    | (21,383,523) | (18,622,875) | (16,560,024) | (13,725,279) |
| Income before income tax from continuing operations                  |      | 16,953,298                      | 15,431,475   | 13,762,938   | 12,094,748   | 10,527,668   |
| Income tax (expenses) benefit                                        |      | (2,167,696)                     | (2,171,365)  | (1,791,726)  | (1,813,652)  | (1,680,158)  |
| Net income from continuing operation                                 |      | 14,785,602                      | 13,260,110   | 11,971,212   | 10,281,096   | 8,847,510    |
| Net income (loss) from discontinued operations                       |      | 0                               | 0            | 0            | 0            | 0            |
| Net income                                                           |      | 14,785,602                      | 13,260,110   | 11,971,212   | 10,281,096   | 8,847,510    |
| Other comprehensive income (loss) for the year, net of tax           |      | 219,223                         | (1,586,945)  | 322,036      | 990,475      | 147,390      |
| Total comprehensive income                                           |      | 15,004,825                      | 11,673,165   | 12,293,248   | 11,271,571   | 8,994,900    |
| Net income attributable to owners of the Company                     |      | 14,886,870                      | 13,411,351   | 11,908,600   | 10,204,320   | 8,847,604    |
| Net income attributable to non-controlling interests                 |      | (101,268)                       | (151,241)    | 62,612       | 76,776       | (94)         |
| Total comprehensive income attributable to owners of the Company     |      | 15,141,299                      | 11,839,399   | 12,197,962   | 11,149,304   | 8,998,778    |
| Total comprehensive income attributable to non-controlling interests |      | (136,474)                       | (166,234)    | 95,286       | 122,267      | (3,878)      |
| Earnings per share (New Taiwan Dollars)                              |      | 1.85                            | 1.85         | 1.80         | 1.74         | 1.77         |

Note : All financial statements above have been audited and certified by accountants, and are based on financial statements that have been audited and certified by accountants for previous years.

## (3) Condensed Balance Sheet (Standalone)

Unit: NT\$1,000

| Item                                                                               | Year                | Financial data 2013-2017 (Note 1) |               |               |               |               |
|------------------------------------------------------------------------------------|---------------------|-----------------------------------|---------------|---------------|---------------|---------------|
|                                                                                    |                     | 2017 (Note 3)                     | 2016 (Note 3) | 2015 (Note 3) | 2014 (Note 3) | 2013 (Note 3) |
| Cash and cash equivalents, due from the central bank and call loans to other banks |                     | 124,718,876                       | 94,956,018    | 95,632,114    | 86,748,320    | 76,148,621    |
| Financial assets at fair value through profit or loss                              |                     | 407,881,802                       | 366,077,137   | 348,549,110   | 291,623,957   | 283,198,494   |
| Available-for-sale financial assets                                                |                     | 169,226,747                       | 139,242,383   | 129,769,543   | 84,810,507    | 71,152,842    |
| Derivative financial assets for hedging                                            |                     | 0                                 | 0             | 0             | 0             | 0             |
| Securities purchased under resell agreements                                       |                     | 0                                 | 173,470       | 896,844       | 152,758       | 0             |
| Receivables, net                                                                   |                     | 82,575,221                        | 75,532,825    | 71,276,123    | 65,358,517    | 56,058,752    |
| Current tax assets                                                                 |                     | 5,054                             | 0             | 0             | 138,082       | 159,549       |
| Assets held for sale, net                                                          |                     | 0                                 | 0             | 0             | 0             | 0             |
| Discounts and loans, net                                                           |                     | 1,189,316,642                     | 1,098,470,520 | 1,011,082,173 | 925,015,590   | 822,018,909   |
| Held-to-maturity financial assets, net                                             |                     | 1,946,538                         | 2,475,695     | 5,289,839     | 5,915,792     | 8,593,699     |
| Investments accounted for using equity method, net                                 |                     | 12,626,308                        | 12,115,047    | 7,772,615     | 2,465,142     | 2,065,612     |
| Restricted assets                                                                  |                     | 0                                 | 0             | 0             | 0             | 0             |
| Other financial assets, net                                                        |                     | 5,102,429                         | 23,301,821    | 40,061,689    | 50,748,101    | 15,495,332    |
| Properties and equipment, net                                                      |                     | 25,108,061                        | 23,525,277    | 21,878,315    | 19,737,442    | 18,140,151    |
| Investment properties, net                                                         |                     | 401,360                           | 389,753       | 728,099       | 923,833       | 1,057,348     |
| Intangible assets                                                                  |                     | 4,793,788                         | 4,643,445     | 4,489,317     | 4,266,282     | 4,181,034     |
| Deferred tax assets, net                                                           |                     | 571,230                           | 238,352       | 456,760       | 113,045       | 181,626       |
| Other assets                                                                       |                     | 3,323,103                         | 3,332,967     | 4,749,116     | 2,771,256     | 1,533,172     |
| Total assets                                                                       |                     | 2,027,597,159                     | 1,844,474,710 | 1,742,631,657 | 1,540,788,624 | 1,359,985,141 |
| Due to the Central Bank and other banks                                            |                     | 61,027,434                        | 51,419,462    | 69,855,781    | 57,462,374    | 47,037,326    |
| Funds borrowed from the Central Bank and other banks                               |                     | 0                                 | 0             | 0             | 0             | 0             |
| Financial liabilities at fair value through profit or loss                         |                     | 43,359,847                        | 42,091,703    | 35,836,236    | 22,494,142    | 5,838,296     |
| Derivative financial liabilities for hedging                                       |                     | 0                                 | 0             | 0             | 0             | 0             |
| Securities sold under repurchase agreements                                        |                     | 12,200,468                        | 8,881,723     | 8,034,391     | 13,117,523    | 6,254,291     |
| Payables                                                                           |                     | 25,490,692                        | 23,037,241    | 17,763,734    | 17,972,885    | 15,409,929    |
| Current tax liabilities                                                            |                     | 1,379,569                         | 1,219,735     | 815,278       | 795,726       | 374,974       |
| Liabilities directly associated with assets held for sale                          |                     | 0                                 | 0             | 0             | 0             | 0             |
| Deposits and remittances                                                           |                     | 1,692,875,687                     | 1,540,002,824 | 1,444,866,004 | 1,275,843,789 | 1,150,641,738 |
| Bonds payable                                                                      |                     | 36,750,000                        | 42,250,000    | 44,950,000    | 43,800,000    | 47,500,000    |
| Preferred stock liabilities                                                        |                     | 0                                 | 0             | 0             | 0             | 0             |
| Other financial liabilities                                                        |                     | 4,334,330                         | 6,200,448     | 761,451       | 1,966,844     | 1,927,219     |
| Provisions                                                                         |                     | 466,553                           | 409,738       | 471,382       | 313,599       | 380,251       |
| Deferred tax liabilities                                                           |                     | 694,053                           | 913,495       | 1,254,631     | 780,031       | 743,421       |
| Other liabilities                                                                  |                     | 1,873,988                         | 1,677,450     | 1,631,459     | 1,518,819     | 1,127,470     |
| Total liabilities                                                                  | Before distribution | 1,880,452,621                     | 1,718,103,819 | 1,626,240,347 | 1,436,065,732 | 1,277,234,915 |
|                                                                                    | After distribution  | (Note 2)                          | 1,722,722,819 | 1,629,094,615 | 1,439,201,668 | 1,278,822,915 |
| Equity attributable to owners of the Company                                       |                     | 147,144,538                       | 126,370,891   | 116,391,310   | 104,722,892   | 82,750,226    |
| Capital stock                                                                      | Before distribution | 83,121,000                        | 72,628,830    | 66,840,000    | 61,360,000    | 49,850,000    |
|                                                                                    | After distribution  | (Note 2)                          | 77,081,000    | 72,187,000    | 65,440,000    | 54,200,000    |
| Capital surplus                                                                    |                     | 24,865,967                        | 19,837,781    | 19,139,073    | 17,825,058    | 12,573,696    |
| Retained earnings                                                                  | Before distribution | 38,794,234                        | 33,861,600    | 29,012,240    | 24,505,503    | 20,170,387    |
|                                                                                    | After distribution  | (Note 2)                          | 24,790,430    | 20,810,972    | 17,289,567    | 14,232,387    |
| Other equity                                                                       |                     | 363,337                           | 42,680        | 1,399,997     | 1,032,331     | 156,143       |
| Treasury stock                                                                     |                     | 0                                 | 0             | 0             | 0             | 0             |
| Non-controlling interests                                                          |                     | 0                                 | 0             | 0             | 0             | 0             |
| Total equity                                                                       | Before distribution | 147,144,538                       | 126,370,891   | 116,391,310   | 104,722,892   | 82,750,226    |
|                                                                                    | After distribution  | (Note 2)                          | 121,751,891   | 113,537,042   | 101,586,956   | 81,162,226    |

Note 1: All financial statements above have been audited and certified by accountants.

Note 2: The 2017 earnings distribution proposal is pending resolution of the shareholder meeting.

Note 3: Based on certified financial statements from previous years.

#### (4) Condensed Statement of Comprehensive Income (Standalone)

Unit:NT\$1,000, Except Earnings Per Share

| Item                                                                 | Year | Financial data 2013-2017 (Note) |              |              |              |              |
|----------------------------------------------------------------------|------|---------------------------------|--------------|--------------|--------------|--------------|
|                                                                      |      | 2017 (Note)                     | 2016 (Note)  | 2015 (Note)  | 2014 (Note)  | 2013 (Note)  |
| Interest revenue                                                     |      | 30,996,842                      | 27,972,962   | 28,556,372   | 26,084,131   | 22,121,594   |
| Interest expense                                                     |      | (11,989,563)                    | (10,390,621) | (11,908,824) | (11,201,430) | (9,343,458)  |
| Net interest                                                         |      | 19,007,279                      | 17,582,341   | 16,647,548   | 14,882,701   | 12,778,136   |
| Net revenues and gains other than interest                           |      | 23,638,129                      | 20,912,978   | 18,591,843   | 15,428,592   | 13,020,825   |
| Total net revenues                                                   |      | 42,645,408                      | 38,495,319   | 35,239,391   | 30,311,293   | 25,798,961   |
| Bad-debt expenses and provision for losses on guarantees             |      | (2,605,817)                     | (2,364,936)  | (3,482,751)  | (2,033,204)  | (1,653,829)  |
| Operating Expenses                                                   |      | (22,811,076)                    | (20,412,394) | (18,106,068) | (16,323,527) | (13,631,177) |
| Income before income tax from continuing operations                  |      | 17,228,515                      | 15,717,989   | 13,650,572   | 11,954,562   | 10,513,955   |
| Income tax (expense) benefit                                         |      | (2,341,645)                     | (2,306,638)  | (1,741,972)  | (1,750,242)  | (1,666,351)  |
| Net income from continuing operation                                 |      | 14,886,870                      | 13,411,351   | 11,908,600   | 10,204,320   | 8,847,604    |
| Net income (loss) from discontinued operations                       |      | 0                               | 0            | 0            | 0            | 0            |
| Net income (loss)                                                    |      | 14,886,870                      | 13,411,351   | 11,908,600   | 10,204,320   | 8,847,604    |
| Other comprehensive income for the year, net of tax                  |      | 254,429                         | (1,571,952)  | 289,362      | 944,984      | 151,174      |
| Total comprehensive income                                           |      | 15,141,299                      | 11,839,399   | 12,197,962   | 11,149,304   | 8,998,778    |
| Net income attributable to owners of the Company                     |      | 14,886,870                      | 13,411,351   | 11,908,600   | 10,204,320   | 8,847,604    |
| Net income attributable to non-controlling interests                 |      | 0                               | 0            | 0            | 0            | 0            |
| Total comprehensive income attributable to owners of the Company     |      | 15,141,299                      | 11,839,399   | 12,197,962   | 11,149,304   | 8,998,778    |
| Total comprehensive income attributable to non-controlling interests |      | 0                               | 0            | 0            | 0            | 0            |
| Earnings per share (New Taiwan Dollars)                              |      | 1.85                            | 1.85         | 1.80         | 1.74         | 1.77         |

Note: All financial statements above have been audited and certified by accountants, and are based on financial statements that have been audited and certified by accountants for previous years.

#### 2.CPAs' Auditing Opinion from 2013 to 2017

Huang Jui Chan, CPA, and Lai Kwan Chung, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the year of 2013, ended on December 31, and issued an unqualified opinion report ; Huang Jui Chan, CPA, and Lai Kwan Chung, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the year of 2014, ended on December 31, and issued an unqualified opinion report.; Huang Jui Chan, CPA, and Lai Kwan Chung, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the year of 2015, ended on December 31, and issued an unqualified opinion report.; Chen Yin Chou, CPA, and Huang Jui Chan, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the year of 2016, ended on December 31, and issued an unqualified opinion report; Chen Yin Chou, CPA, and Huang Jui Chan, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the years of 2017, ended on December 31, and issued modified unqualified opinion report.

### 3. Financial Analysis from 2013 to 2017

#### (1) Financial Analysis

(Consolidated)

Unit:NT\$1,000

| Item                                                | Year                                                          | Financial data 2013-2017 (Note 1) |            |            |            |           |
|-----------------------------------------------------|---------------------------------------------------------------|-----------------------------------|------------|------------|------------|-----------|
|                                                     |                                                               | 2017                              | 2016       | 2015       | 2014       | 2013      |
| Operating ratio                                     | Loan-to-Deposit Ratio (%)                                     | 71.64                             | 72.69      | 70.97      | 73.61      | 72.40     |
|                                                     | NPL ratio (%) (Note3)                                         | 0.23                              | 0.19       | 0.13       | 0.18       | 0.20      |
|                                                     | Ratio of interest expenses to average deposit(%) (Note 4)     | 0.63                              | 0.61       | 0.78       | 0.80       | 0.73      |
|                                                     | Ratio of interest revenues to average loans(%)                | 2.17                              | 2.17       | 2.33       | 2.32       | 2.25      |
|                                                     | Total assets turnover (Times)                                 | 0.02                              | 0.02       | 0.02       | 0.02       | 0.02      |
|                                                     | Average revenue per employee                                  | 5,077                             | 4,808      | 4,650      | 4,341      | 3,951     |
|                                                     | Average net income per employee                               | 1,674                             | 1,583      | 1,548      | 1,454      | 1,347     |
| Profitability ratio                                 | Ratio of return on tier 1 capital (%)                         | 11.51                             | 12.27      | 12.85      | 13.67      | 14.20     |
|                                                     | Ratio of return on total assets (%)                           | 0.75                              | 0.73       | 0.72       | 0.70       | 0.68      |
|                                                     | Ratio of return on equity (%)                                 | 10.78                             | 10.81      | 10.76      | 10.88      | 11.18     |
|                                                     | Profit margin ratio (%)                                       | 32.96                             | 32.92      | 33.30      | 33.50      | 34.08     |
|                                                     | Basic earnings per share (New Taiwan Dollars)                 | 1.85                              | 1.85       | 1.80       | 1.74       | 1.77      |
| Financial structure                                 | Ratio of debt to assets (%)                                   | 97.23                             | 96.01      | 99.21      | 99.03      | 98.67     |
|                                                     | Ratio of properties and equipment to shareholders' equity (%) | 18.71                             | 20.30      | 22.30      | 19.19      | 22.15     |
| Ratio of growing                                    | Ratio of assets growing (%) (Note5)                           | 9.96                              | 6.22       | 13.43      | 13.37      | 10.72     |
|                                                     | Ratio of income growing (%) (Note6)                           | 9.86                              | 5.14       | 13.70      | 14.89      | 24.12     |
| Cash Flow (Note 3)                                  | Cash flow ratio (%) (Note7)                                   | 17.06                             | 1.03       | 12.68      | 5.49       | (Note 2)  |
|                                                     | Cash flow Adequacy ratio (%) (Note7)                          | 134.22                            | 48.73      | 114.38     | 39.70      | 206.70    |
|                                                     | Cash flow content ratio (%)                                   | (Note 2)                          | (Note 2)   | (Note 2)   | (Note 2)   | (Note 2)  |
| Ratio of liquidity preparation (%) (Note8)          |                                                               | 29.50                             | 24.67      | 27.27      | 23.58      | 26.27     |
| Secured loan balance of related-party               |                                                               | 13,919,266                        | 12,115,927 | 11,565,228 | 10,224,768 | 8,946,196 |
| Ratio of secured loans balance of related-party (%) |                                                               | 1.10                              | 1.07       | 1.12       | 1.08       | 1.07      |
| Operating Scale                                     | Market share of assets (%)                                    | 3.92                              | 3.73       | 3.46       | 3.16       | 3.03      |
|                                                     | Market share of equity (%)                                    | 4.02                              | 3.64       | 3.42       | 3.35       | 2.94      |
|                                                     | Market share of deposit (%)                                   | 4.37                              | 4.15       | 4.42       | 4.13       | 3.94      |
|                                                     | Market share of assets loans (%)                              | 4.25                              | 4.07       | 4.26       | 4.03       | 3.74      |

Please provide reasons for changes in financial ratios in last two years: N/A. (Optional if the change ratio is under 20%)

Note 1: All financial data above are based on financial statements that have been audited and certified by accountants for previous years.

Note 2: The net cash outflow from investment activities is negative, and therefore not included in the analysis herein.

Note 3: The nonperforming loan ratio is higher compared to the previous year, mainly due to a higher total amount of overdue secured business loans and other secured consumer loans.

Note 4: The ratio of interest expense to average annual balance is higher compared to the previous year, mainly due to an increase in interest paid on deposit.

Note 5: The overall YOY asset growth is positive, mainly due to an increase in medium- and long-term loans in the current year.

Note 6: The YOY profit growth is positive, mainly due to higher exchange gains in the current year.

Note 7: The cash flow ratio and the cash flow adequacy ratio cash flow are higher compared to the previous year, mainly due to an increased term deposit balance in the current year leading to an increase in the net cash outflow from operating activities.

Note 8: The liquid reserve ratio is higher compared to the previous year, mainly due to an increased balance of government bonds and commercial paper in the current year leading to a higher liquid reserve ratio.

1. Operating Ratio

- (1) Loan-to-Deposit Ratio = Total loans / Total deposits
- (2) NPL ratio = Nonperforming loans / Total loans
- (3) Interest expense to average total deposits = Total interest expense / Average total deposit.
- (4) Interest revenue to average total loans = Total interest revenue / Average total loans
- (5) Total assets turnover rate = Net income / Total asset
- (6) Average revenue per employee = Net revenues / Employee
- (7) Average net income per employee = Net income / Employee

2. Profitability ratio

- (1) Tier 1 capital ROE = Net income before tax / Average total tier 1 capital
- (2) Ratio of return on total assets = Income after income tax / Average total assets
- (3) Ratio of return on stockholders' equity = Income after income tax / Average stockholders' equity
- (4) Profit margin ratio = Income after income tax / Net revenues
- (5) Earnings per share = (Income after income tax - Dividends for preferred stocks) / Average issued shares

3. Financial structure

- (1) Ratio of debt to assets = Total liabilities / Total assets
- (2) Ratio of properties and equipment to shareholders' equity = Properties and equipment / Shareholders' equity.

4. Ratio of growing

- (1) Ratio of assets growing = (Total assets - Last year total assets) / Last year total assets
- (2) Ratio of income growing = (Income before income tax - Last year income before income tax) / Last year income before income tax

5. Analyses for liquidity

- (1) Cash flow ratio = Net cash provided by operating activities / ( Due to the bank + Commercial paper issued + Financial liabilities at fair value through profit of loss + Securities sold under repurchased agreements + Current portion of Payables )
- (2) Cash flow adequacy ratio = Net cash provided by operating activities(from 2013 to 2017) / from 2013 to 2017( capital expenditure + Cash dividends )
- (3) Cash flow content ratio = Net cash provided by operating activities / Net cash provided by investing activities

6. Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided

7. Operating Scale

- (1) Market share of assets = Total assets / Total assets of all financial institutions which are qualified in deposit and loan business.
- (2) Market share of equity = Total stockholders' equity / Total stockholders' equity of all financial institutions which are qualified in deposit and loan business.
- (3) Market share of deposit (%) (bank) = Total deposits / Total deposits held by all financial institutions which are qualified in deposit and loan business.
- (4) Market share of loans (%) (bank) = Total loans / Total loans granted by all financial institutions which are qualified in deposit and loan business.

(Individual)

Unit:NT\$1,000

| Year                                                |                                                               | Item       | Financial data 2013-2017 |            |            |           |      |
|-----------------------------------------------------|---------------------------------------------------------------|------------|--------------------------|------------|------------|-----------|------|
|                                                     |                                                               |            | 2017                     | 2016       | 2015       | 2014      | 2013 |
| Operating ratio                                     | Loan-to-Deposit Ratio (%)                                     | 71.17      | 72.24                    | 70.90      | 73.35      | 72.27     |      |
|                                                     | NPL ratio (%) (Note3)                                         | 0.23       | 0.19                     | 0.13       | 0.18       | 0.20      |      |
|                                                     | Ratio of interest expenses to average deposit (%)             | 0.62       | 0.58                     | 0.75       | 0.78       | 0.72      |      |
|                                                     | Ratio of interest revenues to average loans (%)               | 2.10       | 2.08                     | 2.25       | 2.26       | 2.23      |      |
|                                                     | Total assets turnover (Times)                                 | 0.02       | 0.02                     | 0.02       | 0.02       | 0.02      |      |
|                                                     | Average revenue per employee                                  | 5,229      | 4,965                    | 4,821      | 4,483      | 4,054     |      |
|                                                     | Average net income per employee                               | 1,825      | 1,730                    | 1,629      | 1,509      | 1,390     |      |
| Profitability ratio                                 | Ratio of return on tier 1 capital (%)                         | 12.14      | 12.96                    | 12.98      | 13.53      | 14.16     |      |
|                                                     | Ratio of return on total assets (%)                           | 0.77       | 0.75                     | 0.73       | 0.70       | 0.68      |      |
|                                                     | Ratio of return on equity ( %)                                | 10.89      | 11.00                    | 10.77      | 10.89      | 11.23     |      |
|                                                     | Profit margin ratio (%)                                       | 34.91      | 34.84                    | 33.79      | 33.67      | 34.29     |      |
|                                                     | Basic earnings per share (New Taiwan Dollars)                 | 1.85       | 1.85                     | 1.80       | 1.74       | 1.77      |      |
| Financial structure                                 | Ratio of debt to assets (%)                                   | 92.74      | 93.14                    | 93.31      | 93.19      | 93.90     |      |
|                                                     | Ratio of properties and equipment to shareholders' equity (%) | 17.06      | 18.62                    | 18.80      | 18.85      | 21.92     |      |
| Ratio of growing                                    | Ratio of assets growing (%) (Note4)                           | 9.93       | 5.83                     | 13.10      | 13.29      | 10.00     |      |
|                                                     | Ratio of income growing (%) (Note5)                           | 9.61       | 7.92                     | 14.09      | 13.70      | 23.96     |      |
| Cash Flow (Note 3)                                  | Cash flow ratio (%) (Note6)                                   | 18.97      | 5.72                     | 11.05      | 6.00       | (Note 2)  |      |
|                                                     | Cash flow Adequacy ratio (%) (Note6)                          | 134.12     | 59.68                    | 149.67     | 57.30      | 253.85    |      |
|                                                     | Cash flow content ratio (%)                                   | (Note 2)   | (Note 2)                 | (Note 2)   | (Note 2)   | (Note 2)  |      |
| Ratio of liquidity preparation (%) (Note7)          |                                                               | 29.50      | 24.67                    | 27.27      | 23.58      | 26.27     |      |
| Secured loan balance of related-party               |                                                               | 13,919,266 | 12,115,927               | 11,565,228 | 10,224,768 | 8,946,196 |      |
| Ratio of secured loans balance of related-party (%) |                                                               | 1.13       | 1.09                     | 1.13       | 1.09       | 1.08      |      |
| Operating Scale (Note 4)                            | Market share of assets (%)                                    | 3.87       | 3.67                     | 3.42       | 3.14       | 3.01      |      |
|                                                     | Market share of equity (%)                                    | 4.05       | 3.62                     | 3.40       | 3.33       | 2.92      |      |
|                                                     | Market share of deposit (%)                                   | 4.31       | 4.10                     | 4.38       | 4.11       | 3.92      |      |
|                                                     | Market share of assets loans (%)                              | 4.17       | 4.00                     | 4.22       | 3.99       | 3.71      |      |

Please provide reasons for changes in financial ratios in last two years: N/A. (Optional if the change ratio is under 20%)

Note 1: All financial data above are based on financial statements that have been audited and certified by accountants for previous years.

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- (4) Interest revenue to average total loans = Total interest revenue from loans / Average total loans
- (5) Total assets turnover rate = Net income / Total asset
- (6) Average revenue per employee = Net revenues / Employee
- (7) Average net income per employee = Net income / Employee

#### 2. Profitability ratio

- (1) Tier 1 capital ROE = Net income before tax / Average total tier 1 capital
- (2) Ratio of return on total assets = Income after income tax / Average total assets
- (3) Ratio of return on equity = Income after income tax / Average total equity
- (4) Profit margin ratio = Income after income tax / Net revenues
- (5) Earnings per share =( income and loss attributable to owners of the Company - Dividends for preferred stocks ) / Average issued shares

#### 3. Financial structure

- (1) Ratio of debt to assets = Total liabilities / Total assets
- (2) Ratio of properties and equipment to shareholders' equity = Properties and equipment / Shareholders' equity.

#### 4. Ratio of growing

- (1) Ratio of assets growing =( Total assets - Last year total assets) / Last year total assets
- (2) Ratio of income growing =( Income before income tax - Last year income before income tax ) / Last year income before income tax

#### 5. Analyses for liquidity

- (1) Cash flow ratio = Net cash provided by operating activities / ( Due to the bank + Commercial paper issued + Financial liabilities at fair value through profit or loss + Securities sold under repurchased agreements + Current portion of Payables )
- (2) Cash flow adequacy ratio = Net cash provided by operating activities(from 2013 to 2017) / from 2013 to 2017 ( capital expenditure + Cash dividends )
- (3) Cash flow content ratio = Net cash provided by operating activities / Net cash provided by investing activities

#### 6. Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided

#### 7. Operating Scale

- (1) Market share of assets = Total assets / Total assets of all financial institutions which are qualified in deposit and loan business.
- (2) Market share of equity = Total shareholders' equity / Total shareholders' equity of all financial institutions which are qualified in deposit and loan business.
- (3) Market share of deposit %(bank) = Total deposits / Total deposits held by all financial institutions which are qualified in deposit and loan business.
- (4) Market share of loans%(bank) = Total loans / Total loans granted by all financial institutions which are qualified in deposit and loan business.

## (2) Capital adequacy Ratio

Unit:NT\$1,000

| Item                                            |                        | Year                                                    | Financial data 2013-2017 (Consolidated) |               |               |               |               |             |
|-------------------------------------------------|------------------------|---------------------------------------------------------|-----------------------------------------|---------------|---------------|---------------|---------------|-------------|
|                                                 |                        |                                                         | 2017                                    | 2016          | 2015          | 2014          | 2013          |             |
| Eligible capital                                | Common equity          |                                                         | 139,863,762                             | 119,481,671   | 110,664,625   | 99,485,005    | 77,370,270    |             |
|                                                 | Other Tier 1 capital   |                                                         | 18,020,470                              | 17,294,464    | 4,037,931     | 69,309        | -             |             |
|                                                 | Tier 2 capital         |                                                         | 49,344,778                              | 51,570,494    | 47,928,415    | 37,332,551    | 35,976,930    |             |
|                                                 | Eligible capital       |                                                         | 207,229,010                             | 188,346,629   | 162,630,971   | 136,886,865   | 113,347,200   |             |
| Risk-weighted assets                            | Credit risk            | Standardized approach                                   | 1,232,233,279                           | 1,232,534,478 | 1,136,426,589 | 988,942,372   | 860,041,617   |             |
|                                                 |                        | Internal ratings - based approach                       | -                                       | -             | -             | -             | -             |             |
|                                                 |                        | Securitization                                          | -                                       | -             | 8,025         | 282,960       | 383,089       |             |
|                                                 | Operational risk       | Basic indicator approach                                | -                                       | -             | -             | 58,324,925    | 49,532,300    |             |
|                                                 |                        | Standardized approach/alternative standardized approach | 69,492,363                              | 60,688,275    | 51,601,050    | -             | -             |             |
|                                                 |                        | Advanced measurement approach                           | -                                       | -             | -             | -             | -             |             |
|                                                 | Market risk            | Standardized approach                                   | 44,490,150                              | 34,100,088    | 32,340,863    | 26,168,363    | 16,408,800    |             |
|                                                 |                        | Internal model approach                                 | -                                       | -             | -             | -             | -             |             |
|                                                 | Risk-weighted assets   |                                                         |                                         | 1,346,215,792 | 1,327,322,841 | 1,220,376,527 | 1,073,718,620 | 926,365,806 |
|                                                 | Capital adequacy ratio |                                                         |                                         | 15.39         | 14.19%        | 13.33%        | 12.75%        | 12.24%      |
| Ratio of Tier 1 capital to risk-weighted assets |                        |                                                         | 11.73                                   | 10.30%        | 9.40%         | 9.27%         | 8.35%         |             |
| Ratio of common equity to risk-weighted assets  |                        |                                                         | 10.39                                   | 9.00%         | 9.07%         | 9.27%         | 8.35%         |             |
| Leverage Ratio                                  |                        |                                                         | 7.23                                    | 6.84%         | 6.01%         | 5.78%         | 4.91%         |             |

Note 1: Eligible capital = Common equity + other Tier 1 capital + Tier 2 capital.

Note 2: Risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk x 12.5.

Note 3: Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.

Note 4: Ratio of Tier 1 capital to risk-weighted assets = Tier 1 capital / Risk-weighted assets.

Note 5: Ratio of Tier 2 capital to risk-weighted assets = Tier 2 capital / Risk-weighted assets.

Note 6: Ratio of Tier 3 capital to risk-weighted assets = Tier 3 capital / Risk-weighted assets.

Note 7: Ratio of common stock to total assets = Common stock / Total assets.

Unit:NT\$1,000

| Item                                            |                        | Year                                                    | Financial data 2013-2017 (Individual) |               |               |               |               |             |
|-------------------------------------------------|------------------------|---------------------------------------------------------|---------------------------------------|---------------|---------------|---------------|---------------|-------------|
|                                                 |                        |                                                         | 2017                                  | 2016          | 2015          | 2014          | 2013          |             |
| Eligible capital                                | Common equity          |                                                         | 137,835,715                           | 117,217,039   | 109,386,814   | 99,069,970    | 77,614,374    |             |
|                                                 | Other Tier 1 capital   |                                                         | 14,647,495                            | 14,031,679    | 1,894,276     | -             | -             |             |
|                                                 | Tier 2 capital         |                                                         | 42,000,841                            | 43,688,237    | 43,557,492    | 35,932,509    | 34,739,284    |             |
|                                                 | Eligible capital       |                                                         | 194,484,051                           | 174,936,955   | 154,838,582   | 135,002,479   | 112,353,658   |             |
| Risk-weighted assets                            | Credit risk            | Standardized approach                                   | 1,185,638,241                         | 1,183,636,579 | 1,112,343,800 | 976,538,114   | 849,331,474   |             |
|                                                 |                        | Internal ratings - based approach                       | -                                     | -             | -             | -             | -             |             |
|                                                 |                        | Securitization                                          | -                                     | -             | 8,025         | 282,960       | 383,089       |             |
|                                                 | Operational risk       | Basic indicator approach                                | -                                     | -             | -             | 57,955,163    | 49,288,988    |             |
|                                                 |                        | Standardized approach/alternative standardized approach | 66,504,500                            | 58,867,763    | 50,812,588    | -             | -             |             |
|                                                 |                        | Advanced measurement approach                           | -                                     | -             | -             | -             | -             |             |
|                                                 | Market risk            | Standardized approach                                   | 43,661,600                            | 33,630,263    | 32,340,863    | 26,168,363    | 16,408,800    |             |
|                                                 |                        | Internal model approach                                 | -                                     | -             | -             | -             | -             |             |
|                                                 | Risk-weighted assets   |                                                         |                                       | 1,295,804,341 | 1,276,134,605 | 1,195,505,276 | 1,060,944,600 | 915,412,351 |
|                                                 | Capital adequacy ratio |                                                         |                                       | 15.01         | 13.71%        | 12.95%        | 12.72%        | 12.27%      |
| Ratio of Tier 1 capital to risk-weighted assets |                        |                                                         | 11.77                                 | 10.28%        | 9.31%         | 9.34%         | 8.48%         |             |
| Ratio of common equity to risk-weighted assets  |                        |                                                         | 10.64                                 | 9.19%         | 9.15%         | 9.34%         | 8.48%         |             |
| Leverage Ratio                                  |                        |                                                         | 7.11                                  | 6.69%         | 5.89%         | 5.86%         | 4.94%         |             |

Note 1: Eligible capital = Common equity + other Tier 1 capital + Tier 2 capital.

Note 2: Risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk x 12.5.

Note 3: Capital adequacy ratio = Eligible capital / Risk-weighted assets.

Note 4: Ratio of Tier 1 capital to risk-weighted assets = Tier 1 capital / Risk-weighted assets.

Note 5: Ratio of Tier 2 capital to risk-weighted assets = Tier 2 capital / Risk-weighted assets.

Note 6: Ratio of Tier 3 capital to risk-weighted assets = Tier 3 capital / Risk-weighted assets.

Note 7: Ratio of common stock to total assets = Common stock / Total assets.

## 4. Audit Committee Report

Audit Committee Report.

### Audit Committee Report

To: E.SUN Bank

The 2017 consolidated financial statements of E.SUN Bank ("the Bank") have been prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Public Banks", "Guidelines Governing the Preparation of Financial Reports by Securities Firms", "International Financial Reporting Standards", "International Accounting Standards", "IFRIC Interpretations" and "SIC Interpretations" endorsed by the Financial Supervisory Commission of the Republic of China. The 2017 standalone financial statements of the Bank have been prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Public Banks" and "Guidelines Governing the Preparation of Financial Reports by Securities Firms". CPA Chen Yin Chou and CPA Huang Jui Chan of Deloitte & Touche have been appointed by the Bank to audit the financial statements. After reviewing the financial statements, the Audit Committee has found them to meet the requirements of the applicable laws and guidelines. The report is hereby prepared in accordance with Article 14-4 and Article 36 of Security and Exchange Law and submitted along with the financial statements of the Bank for the Board's approval.



Chen-En Ko  
Convener  
Audit Committee  
E.SUN Bank

Date: March 8, 2018

## VII. Risk Management



# 1. Risk Management

E.SUN's business development policies place security and liquidity first, followed by returns and then growth. E.SUN's main six business divisions including consumer banking, corporate banking, wealth management, treasury, credit card and payment finance, and digital banking division have all established risk management units that are responsible for direct management of risk operations. Regarding product designation, operational procedures and business marketing, E.SUN is continuously engaging in risk measurement, supervision and control tasks that are independent of the respective business operations.

Apart from each risk management unit under different business divisions, E.SUN has established the Risk Management Division in order to centralize screening, supervision and coordination of the Bank's risk management mechanisms. The division is in charge of drafting risk management policies and principles that serve as a guide for all business units. It also supervises and coordinates the operation of risk management mechanisms in these offices. In addition, E.SUN's risk management policies are linked with capital adequacy. Guidelines under the latest rule of Basel II Accord have been used as a basis in formulating rules and procedures that are intended to ensure an appropriate risk appetite, risk reporting lines, and capital adequacy. The aforementioned reports are reviewed regularly and reported to the board and Risk Management Committee of the E.SUN FHC as foundations for adjustment for risk management related policies and operational strategies.

## 1. Qualitative and Quantitative Information Concerning Risk Types

### 1.1 Credit Risk Management Institution and Capital Charges

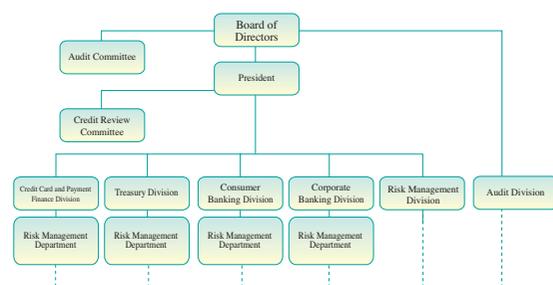
#### (1) Credit Risk Management Institution a. Credit Risk Strategies, Goals, Policies and Processes

The objective of the Bank's risk management and development strategy is to comply with the regulatory institution and to establish "General Principles of

Credit Risk Management", internal lending and transaction with counterparties' risk control mechanisms, thus continuing to assess and to follow with domestic and foreign economic and financial trends, make adjustments to internal criteria as appropriate. E.SUN complies with the latest rules of Basel, set up comprehensive credit management institution and adopt credit evaluation models. E.SUN establish financial risk limits and exchange party limits according to different aspects, including nationality, industry, business conglomerate, and rating. Furthermore, we report to the authorities regularly and continue to strengthen our own risk management abilities, complying with the authorities' requirements.

#### b. Credit Risk Management Organization and Framework

Each main business division has established a risk management unit to facilitate the identification and handling of risk on the front line, to establish acceptance risk limits, and create indicators for use in monitoring risk. In addition, E.SUN establish a Credit Committee to assess material credit risk. For its part, the Risk Management Division formulates risk management policies and principles, bears responsibility for assessing and monitoring Bank-wide risk management quality, and regularly reports to the board and the Risk Management Committee of the E.SUN FHC. E.SUN's credit risk management organization is shown in the schematic diagram below.



c. Scope and Features of Credit Risk Reporting and Measurement System

The objective of Bank unit’s responsible for establishing risk controls and managing risk, as well as credit risk assessment and management procedures, is to screen credit risk, engage in credit rating, manage the level of credit extended, mid-term management, and monitor loans after they have been disbursed. Every unit which is responsible for risk management in E.SUN adopts various measures to effectively monitor such risk and regularly produces reports that detail its efforts to manage credit risk. The Bank also releases data that provide a true picture on all types of credit risk, including sovereign risk, trading counterparty credit risk, large amounts of exposure, concentration of credit in specific industries, and amount of credit extended to a single institution or conglomerate. This data is forwarded to managers instantaneously at all levels so they are aware of the level of risk exposure.

To comply with New Basel Accord, E.SUN has used existing historical customer data to develop the Internal Rating System, which is regarded as the framework of measuring credit risk and also has completed the roll-out of credit risk data mart, a consumer banking and corporate banking IRB model. The IRB rating model has been integrated with the Bank’s credit processing system(CPS). In addition, reviews and improvements to the mechanisms are constantly being carried out, including credit risk control policies, measurement procedures, and credit development strategies.

d. Credit Risk Hedging and Risk Mitigation

Policies; Strategies and Processes to Monitor the Continued Effectiveness of Risk Mitigation Tools  
 Credit risk mitigation refers to techniques used to reduce credit risk, thereby reducing total risk-based assets and required capital charges. For instance, collateral, third-party guarantees, trading credit derivatives as a hedge, using the counterparty’s deposits to offset its liabilities or asset securitization can be used to shift credit risk from the Bank. E.SUN’s credit handbook explicitly states that in order to avoid losses associated with defaults by a counterparty, collateral must be provided by the counterparty or a third party. Should the customer default, be unable to repay the loan or become insolvent, the collateral will be disposed based on clear procedural guidelines. At the same time, E.SUN effectively reduces its credit risk by requiring guarantees from the Taiwan Small and Medium Enterprise Credit Guarantee Fund on lending to SMEs and credit insurance for personal credit loans.

e. Approach to Determining Regulatory Capital Charges: Standardized Approach.

**The Standardized Approach to Credit Risk: Exposure after Risk Mitigation and Capital Charges**

2017.12.31 unit : NTS thousand

| Category of Exposure                                     | Exposure after Risk Mitigation | Capital Charges |
|----------------------------------------------------------|--------------------------------|-----------------|
| Sovereign                                                | 127,028,015                    | 100,416         |
| Public Sector (Non-central government)                   | 2,701,930                      | 43,231          |
| Banks (including multilateral development banks)         | 179,448,491                    | 6,255,513       |
| Corporate (including securities and insurance companies) | 521,129,364                    | 40,203,652      |
| Retail Bonds                                             | 550,052,115                    | 35,699,170      |
| Residential Real Estate                                  | 233,041,768                    | 9,929,945       |
| Equity Investments                                       | 246,122                        | 19,690          |
| Other Assets                                             | 51,205,407                     | 2,440,506       |
| Total                                                    | 1,664,853,212                  | 94,692,123      |

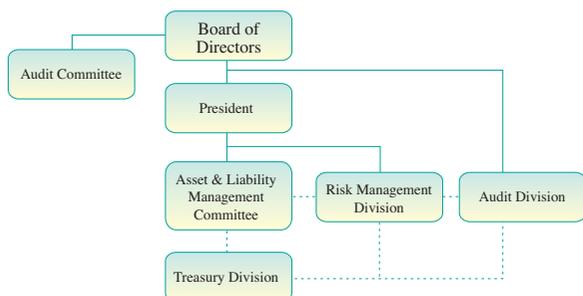
## 1.2 Operational Risk Management institution, Exposure and Capital Charges

### (1) Operational Risk Management institution

- a. Operational risks are caused by errors within a bank's interior operation, personnel, or system, or they are caused by exterior incidents. Regarding the prevention of interior operational risks, we establish a thorough operation system, educate personnel on risks, and develop a disciplined company culture. We also maintain the third line of defense from within and continue to improve on our inner control system and operational effectiveness. The first line of defense is each of our bank's departments and their business operations. Each department is responsible for the risks involved in its daily operation. They are in charge of recognizing and controlling such risks as well as organizing and operating effective interior control procedures within all of its business operations according to the risk characteristics. The second line of defense is independent from the functions and departments of the first and third lines of defense, including risk management, regulatory compliance, and other specialized departments. The second line of defense's main purpose is to assist and supervise the first line of defense while it recognizes and maintains risks. The second line of defense is also in charge of designing the risk management policies of the

entire bank and supervising its entire risk taking ability, evaluating the risk taking condition, and reporting the risk management progress to the board or higher-level management. In addition to providing extensive education and training to personnel, E.SUN has also drafted rules and regulations to guard against operational risk. In addition, in order to ensure protection against risk caused by external events, E.SUN continuously monitors the market environment, customer behavior, changes in technology, and laws and regulations. This enables it to be sensitive to any steps that need to be taken and react appropriately and immediately.

The Bank's operational risk management process consists of process analysis, risk identification, risk evaluation, risk measurement and monitoring. Among the tools adopted are Risk Control Self-Assessment, Key Risk Indicators (KRIs) and Operational Risk Loss Data Collection. Drawing on the management instruments cited above, the Bank is able to keep an across-the board update of operational risk and take corrective measures wherever greater risks are posed, thereby keeping operational risk under control.



E.SUN has established the Administration Direction for New Product (Service) Regulator Compliance and Risk Management, which requires each business management department to assess the regulator compliance and risk degree involved before offering or applying for re-offering any new product or service,

in order to maintain the possible regulatory compliance and operational risks.

**b. Operational Risk Management Organization and Framework**

As the Bank’s highest-ranking decision maker with regard to operational risk management, the board of directors is charged with setting operational risk management guidelines and risk appetite among other key decisions on this front in accordance with the Bank’s operating strategy and business environment. That is, it is responsible to ensure that the Bank’s operational risk management mechanism works effectively. In turn, the Risk Management Division is given the duty of designing and introducing the Bank’s operational risk management mechanism, setting and revising operational risk management regulations, and tracking and monitoring operational risk management practices at all the business divisions. Besides presenting suggestions on corrective measures, it is also supposed to consolidate operational risk management information across the Bank and report it to the board. For their part, business units shall map out operational manuals and regulations as the basis of their supervising operating units’ implementation of operational risk management. In accordance with the operational regulations laid down by business units, operating units are supposed to work with the former in identifying operational risk and undertake all the necessary risk management tasks prescribed by the Bank. It is the duty of the Auditing Division to evaluate and verify if every unit has adopted an effective operational risk management framework, process and systems on a regular basis.

**c. Scope and Features of Operational Risk Reporting and Measurement System**

Through Risk Control Self-Assessment conducted on a regular basis, the Bank grades potential

operational risk exposure into a number of levels, from slight to severe, and devises action plans accordingly. Meanwhile, KRIs are adopted to monitor operational risk changes and offer early warning; threshold values are set for these KRIs to serve as the basis for determining if countermeasures are warranted. When it comes to Operational Loss Data Collection, the Bank uses 8 categories of business types and 7 types of loss event to keep track of operational risk as it occurs and come up with an appropriate action plan to keep it under control.

The department of Operational Risk management in the head office will regularly disclose information detailing its monitoring of operational risk throughout the Bank. Operational risk data and other related information is compiled and presented in reports to senior management, the Risk Management Committee, and the board of directors.

**d. Operational Risk Hedging or Mitigation Policies; Strategies and Processes to Monitor the Continued Effectiveness of Risk Avoidance and Risk Mitigation Tools**

E.SUN has taken out general insurance to cover the daily operations of its branches. This insurance covers cash on hand, cash in transport, cash in automated machinery, machinery and asset in offices and employee fidelity. By outsourcing some operation and taking insurance, the Bank transferred some operation risks.

**e. Approach to Determining Regulatory Capital Charges: Basic Indicator Approach.**

As of December 31, 2017 unit:NT\$ thousand

| Year  | Gross Income | Capital Charged |
|-------|--------------|-----------------|
| 2015  | 35,091,680   | —               |
| 2016  | 38,450,145   |                 |
| 2017  | 42,360,320   |                 |
| Total | 115,902,145  | 5,320,360       |

### 1.3 Market Risk Management System, Exposure and Capital Charges

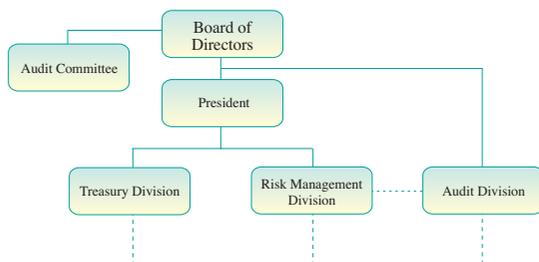
#### (1) Market Risk Management institution

##### a. Market Risk Managerial Strategy and Processes

In order to avoid giant risk from fluctuations in the prices of equities, commodities, interest rates and foreign exchange rates, and from any correlation between these prices of these items, all financial transactions must be carried out in accordance with the Principle of Market Risk Management, Guidelines on Authorities of Handling Financial Transactions and Procedures for Handling Derivatives Transactions. In addition, VaR must be calculated in accordance with definitions set for by the Bank for International Settlements, in an effort to control E.SUN's market risk.

To protect client rights in operating financial derivatives, we have established the Administration Direction for Client Operation in Financial Derivatives, specifying the prices of derivatives and basic complete price evaluation, risk costs, hedge costs, operating costs, and fair return, in order to carefully assess the rationality involving the prices of client financial derivatives.

The Bank also introduced a new valuation and risk management system of financial products to improve professional skill of the associates and market risk management capability of the Bank. Market risks associated with financial market fluctuations and investment or trading position are better controlled.



Regarding our market risk management procedure, including specifying the sources of market risks in various financial product exchanges, we apply suitable measurements to regulate each market risk limit, establish limits and exception management, report the market risk management information to higher-level management on a daily basis, and report the market risk distribution within the bank to the Financial Risk Management Committee and the board of directors regularly as a reference to decision making regarding risk management policies.

##### b. Market Risk Management Organization and Framework

We have established the Market Risk Management Guidelines. In terms of controlling responsibilities, the Risk Management Department is in charge of designing the market risk management system, establishing market risk management regulations and an internal control system, and operating the market risk management within the whole bank, including risk recognition, assessment, internal reporting, external disclosure, and regulation.

##### c. Scope and Features of Market Risk Reporting and Measurement System

Regarding market risk management, E.SUN presently employs the Reuters Kondor+ system, Murex system, Numerix software with data mart of Bloomberg and reuters to evaluate and monitor trading positions and real-time pricing. The system also generates VaR for all investment and trading position carried out in the Bank, helping to monitor the risks. Besides, E.SUN Bank uses KGR system to manage real-time position limits, taking market volatility into consideration to manage market risk and counterparty limits.

##### d. Market Risk Hedging and Risk Mitigation Policies ; Strategies and Processes for

#### Monitoring the Continued Effectiveness of Risk Avoidance and Risk Mitigation Tools

We employ our system to calculate risk factors of financial products, and use appropriate derivatives to hedge and reduce the Bank's risk exposure. We also signed ISDA and CSA contracts with counterparties, and obtain credit enhancement or strengthen security to reduce our counterparty risk through obtaining collateral, etc.

#### e. Approach to Determining Regulatory Capital Charges

The capital charge for foreign exchange options positions of the Bank are calculated using sensitivity analysis (Delta-plus), for which E.SUN has been approved to do by the regulatory authority. All other financial products are calculated using the standard approach.

### (2) Market Risk Capital Charged

2017.12.31 unit : NTS thousand

| Risk Type                     | Capital Charged |
|-------------------------------|-----------------|
| Interest rate risk            | 2,373,343       |
| Equity Securities risk        | 1,015,779       |
| FX risk                       | 96,646          |
| Commodity Risk                | 7,160           |
| Option based on simple method | 0               |
| Total                         | 3,492,928       |

### 1.4. Program of Anti-Money Laundering and Counter Terrorism Financing

#### (1) Program of Anti-Money Laundering and CounterTerrorism Financing

a. Policies and procedures for Anti-Money Laundering and CounterTerrorism Financing. The problems of money-laundering and financing of terrorism have become a major threat to the international financial system. As a member of international financial society, the Bank is striving to Anti-Money Laundering and CounterTerrorism Financing by making policies and procedures aligned with the government's and competent authority's relevant laws and regulations, and consistent with international guidelines such as the Forty

Recommendations issued by the Financial Action Task Force on Money Laundering (FATF). To abide with the Money Laundering Control Act and Guidelines for Anti-Money Laundering and Countering Terrorism Financing by Banking Enterprises, the Bank has promulgated the "E.SUN Commercial Bank policy to control money-laundering and counter the financing of terrorism," "E.SUN Commercial Bank guidelines to control money-laundering and counter the financing of terrorism," and other procedures and operating rules. These guidelines and policies clearly set forth principles and procedures for customer identification, establishment of business relationships, monitoring and reporting of suspicious transactions, and education and training. We are committed to preventing law-breakers from using banking services or operating activities to engage in money-laundering and fund terrorist activities.

#### b. Organization and framework

In order to effectively implement the Program of Anti-Money Laundering and CounterTerrorism Financing, we have implemented three independent lines of defense:

- (a) We have designated a dedicated AML Officer responsible for promoting, coordinating, and supervising the implementation of money-laundering control and anti-terrorism financing measures; this executive reports anti-money-laundering internal control measures and the state of implementation to the board of directors and audit committee at least semi-annually.
- (b) We have assigned AML department of our Risk Management Division to serve as our dedicated unit in charge of determining money-laundering control and anti-terrorism financing policies and operating standards, monitoring suspected money-laundering transactions bank-wide, monitoring bank-

wide money-laundering control reports, and managing money-laundering control work at overseas branch organizations (including branches and subsidiary banks). This dedicated unit must report the status and results of its money-laundering control actions to AML Officer at least quarterly.

(c) The Audit Division determines relevant audit items in accordance with internal control measures and relevant regulations, and performs regular audits.

c. Money-laundering and terrorism financing risk management strategy

In order to fully implement the Bank's money-laundering controls and anti-terrorism financing policies and reduce risk, the Bank took the lead by establishing its own AML system in 2014 on the basis of international money-laundering control standards and continued to improve its suspicious transaction monitoring logic and relevant functions in 2016. At the same time, we encourage colleagues to improve their professional skills, and are promoting domestic and international professional licenses (such as Certified Anti-Money Laundering Specialist (CAMS) certification) recognized by the competent authority, which has served to boost professional knowledge, as well as strengthening education and training. As of the end of 2017, a total of 52 employees at the company had received CAMS certification. The Bank has also adopted a money-laundering and terrorism financing risk assessment program, and employs international standards to perform institutional risk assessment on money laundering and terrorism financing. The results of these assessments indicate that, thanks to the Bank's KYC system, name scans, suspicious transaction monitoring, risk assessment, and education and training measures, overall money-laundering and terrorism financing risk is low.

d. Objective results

The Bank's money-laundering control system and framework was honored by The Asian Banker magazine in September 2016 with the title of "The Anti-Money Laundering Risk Technology Implementation of the Year in Taiwan," which recognized the Bank's adoption of the risk-based money-laundering control system framework and logic promoted by FATF.

## 1.5 Asset and Liability Management

(1) Liquidity Risk Management

The Risk Management Department is in charge of designing a liquidity risk management system, establishing related regulations and an internal control system, and carrying out all the liquidity risk management tasks, including risk recognition, assessment, internal reporting, external disclosure, and regulation. E.SUN has drafted liquidity risk management policy, asset and liabilities management policy, interest rate risk management procedure and principles for liquidity risk management. Various control factors are monitored on a daily basis, and Bank wide liquidity risk is regularly subjected to stress tests to ensure the expected impact on the liquidity is within the acceptable level, and reported to Asset-Liability Management Committee every month.

(2) Asset and Liability Maturity Analysis :  
Next Page.

## 2. Important policies adopted and changes in the legal environment at home and abroad, their effect on the Bank's finances and operations, and measures taken in response:

2.1 Execution of anti-money laundry and anti-terrorism

### TWD Maturity Term Structure Analysis

2017.12.31 unit : NT\$ thousand

|               | Total         | Time to maturity |              |               |               |               |                  |
|---------------|---------------|------------------|--------------|---------------|---------------|---------------|------------------|
|               |               | 0-10 days        | 11-30 days   | 31-90 days    | 91-180 days   | 181-365 days  | more than 1 year |
| money inflow  | 1,650,199,551 | 389,699,265      | 83,599,219   | 91,199,421    | 93,174,035    | 106,966,600   | 885,561,011      |
| money outflow | 1,985,853,350 | 82,158,139       | 111,425,641  | 198,925,457   | 201,115,368   | 332,174,382   | 1,060,054,363    |
| term gap      | (335,653,799) | 307,541,126      | (27,826,422) | (107,726,036) | (107,941,333) | (225,207,782) | (174,493,352)    |

### USD Maturity Term Structure Analysis

2017.12.31 unit : NT\$ thousand

|               | Total       | Time to maturity |             |             |             |              |
|---------------|-------------|------------------|-------------|-------------|-------------|--------------|
|               |             | 0-10 days        | 11-30 days  | 31-90 days  | 91-180 days | 181-365 days |
| money inflow  | 23,816,945  | 7,716,086        | 3,694,240   | 2,953,163   | 2,828,608   | 6,624,849    |
| money outflow | 27,840,698  | 6,953,177        | 6,503,638   | 4,854,482   | 6,048,192   | 3,481,209    |
| term gap      | (4,023,753) | 762,909          | (2,809,398) | (1,901,319) | (3,219,584) | 3,143,639    |

- (1) Taiwan is a member of the Asia/Pacific Group on Money Laundering (APG). In order to re-establish cash flow order, enhance both government and private institution prevention of money laundering, strengthen Taiwan's anti-money laundering situation, and improve the international legal system collaboration, we amended the Anti Money Laundering Law on December 28, 2016 in accordance with the forty instructions of the Financial Action Task Force (FATF) and international agreements and legislation. The Anti Money Laundering Law was put into effect on June 28, 2017. The Financial Supervisory Commission also established its Financial Institution Anti Money Laundering Guidelines according to the law.
- (2) The Bank has amended the Notice of Anti-Money Laundry and Anti-Terrorism according to the newly passed law on August 11<sup>th</sup>, 2017, in order to prevent the criminal operations. It has adopted the risk fundamental methodologies to confirm identity of customers and continuous checking mechanism. In addition, it also verifies shareholding structure and beneficiary owner of corporate or trust clients. The effectiveness of anti-money laundry and anti-terrorism can be ensured according to the three frontiers of internal control.

#### 2.2 Execution of Three Lines of Defense

- (1) The FSC has passed the Practice of Three Lines of Defense for Banking Internal Control on September 23<sup>rd</sup>, 2016. It is clearly defined the framework and

responsibilities of the three lines of defense, enforcing coordination of the three lines and promoting the realization of the ideals of three lines. It is expected that the Practice will effectively help banks to perfect internal control system and strengthen health of the company.

- (2) The current internal control system is made according to Practice for Internal Control and Auditing of Financial Holding Companies and Banks and internal control regulations of each business function. It is complaint with the ideals and roles illustrated in the three lines of defense. The Bank has started to amend the Internal Control System of E.SUN Bank to allow every department to understand each of their role within internal control framework. The ideal of the three lines of defense is incorporated into internal control system of the Bank to ensure effectiveness of internal control and risk management system.
- (3) The Financial Supervisory Commission amended and announced the Administration Directions for Financial Holding Companies and Bank Internal Control and Audit System Operation on March 22, 2017 to strengthen the board of directors for financial institutions and the Audit Commission's business management and regulatory compliance functions, ensuring

that the three lines of defense are thoroughly carried out via internal controls.

- (4) We have established the E.SUN Bank Internal Control System, E.SUN Bank Regulation Compliance Policy and Administration Directions for the E.SUN Bank Regulation Compliance System in accordance with the Administration Directions for Financial Holding Companies and Bank Internal Control and Audit System Operation. We combined the concept and spirit of the third line of defense with our internal control system so that the board of directors and management can effectively maintain it. Furthermore, we require managers to take part in orientation and on-the-job training to ensure that the managers who are responsible for regulatory compliance are aware of the latest changes in regulations.

### 2.3 Enforcement of the Dodd-Frank Act

#### (1) Resolution plan

According to DFA Sec.165 rules, E.SUN Financial Holdings' non-bank-related business total assets in the U.S. is under US\$100 billion; therefore, we have submitted a simplified clean-up and are required to complete the declaration to the Federal Reserve Bank and Federal Deposit Insurance Corporation before December 31, 2017. E.SUN Financial Holdings and our bank have submitted the clean-up project report to the board of directors, and the report was approved on November 2, 2017. We also completed the declaration to the FRB and the FDIC on December 14, 2017.

#### (2) Strengthening enhanced prudential standards (EPS)

Also known as Regulatory YY, enhanced prudential standards (EPS) are prescribed by Article 165 of the Dodd-Frank Act, and require grading-type controls on financial institutions' capital requirements, leverage restrictions, liquidity requirements, stress testing, and risk management requirements. Since the Bank's current aggregate global assets have already exceeded US\$50 billion, it will report on risk management of its US branch organizations during the first quarter of 2017 in accordance with 2nd level regulations. In 2017, E.SUN declared to the FRB regarding our Risk Management Committee, capital pressure test, basic risk

capital requirement, leverage restriction, liquidity risk management, and internal liquidity pressure test report, in accordance with the prudent supervision plan.

### 2.4 Hong Kong Recovery Plan

Hong Kong Monetary Authority announced its Supervisory Policy Manual RE-1 (SPM RE-1) in 2014, requiring authorized financial institutions to submit recovery plans within a limited period once receiving the HKMA notice. The HKMA required institutions to split the process into three parts. The first two parts of the recovery program are suitable for G-SIBs that apply the international system. HKMA announced the instructions for the third part in July 2017, which was designed for the banks in Hong Kong and smaller-scale financial institutions, requiring them to submit the recovery plans before the end of September 2018. We have begun to employ consultants who will assist us with designing the projects.

### 2.5 Implementation of the European Market Infrastructure Regulation (EMIR)

- (1) Derivative margin requirement: At its 2009 summit, the G20 resolved to perform monitoring of all OTC derivatives in order to reduce systemic risk and increase market transaction counterparty risk tolerance.
  - a. All standard derivatives must be cleared through centralized clearing, and grading-type control of financial institutions must be performed. Since the Bank is subject to 2nd level regulations, it completed centralized clearing platform establishment in December 2016 and performed relevant matters.
  - b. The Bank is implementing a margin requirement system for nonstandard derivatives, and this system will take effect during March 2017. The Bank expects to complete revision of a new version of the written agreement before the regulations take effect.

### 2.6 The Markets in Financial Instruments Directive (MiFID)

In order to enhance the transparency of international exchange markets and lower the potential risks in financial product exchange parties, the EU has established the Markets in Financial Instruments Directives (MiFID), requiring bonds, stocks, and financial derivatives

in international exchange markets to comply with the following instructions:

- (1) Legal Entity Identifier (LEI): According to Trading Transparency, which took effect on January 1, 2018 and required all financial product exchange parties to have a sole LEI, we applied for a LEI in 2014.
- (2) Eligible Counterparty: According to the MiFID, institutions are required to classify exchange parties according to registration (within the EU or not), financial institution insurance, investment banks, private funds, government institution, etc. As a non-EU bank, we will comply with related regulations.
- (3) Trade Venue: According to MiFID's Trading Obligation, financial product exchanges are allowed in multiple fields. Our current exchange fields include Regulated Market (RM), Multi-lateral trading Facility (MTF), Organised trading Facility (OTF), and Systematic Internalisers (SI). All of the above fields are EU-authorized exchange fields.

## 2.7 Common Reporting Standard (CRS)

- (1) The Organization for Economic Cooperation and Development (OECD) announced in July 2017 that it has developed a mutually beneficial tax information exchange system. The countries participating in the system are required to establish or amend their local regulations, requiring their financial institutions to recognize account holders' tax identities and declare to local tax institutions in accordance with CRS's instructions, providing the tax institutions in other participating countries with their taxpayers' information.
- (2) Our overseas branch offices, including those in China, Hong Kong, Singapore, Japan, and Australia, have signed the tax agreement and employed consultants to help with organizing the programs. The branch offices in Hong Kong, Singapore, and Japan began the new account assessment process in January 2017 (the branch offices in Australia and China began in July 2017) and completed the assessment of the current high net worth accounts. Other account assessment will be completed before the end of 2018, and the first declaration will be carried out in May 2015.
- (3) The Ministry of Finance announced the Regulations for Financial Institution Joint Declaration and Due Diligence. We will begin our due diligence in 2019 and exchange

information with other countries or regions for the first time in 2020. We will continue complying with the authorities' orders and organize related programs with the assistance of external consultants.

## 3. Effect of developments in science and technology as well as industrial change on the Bank's finances and operations, and measures taken in response

Multi-channel payments have become a new trend due to prosperous international e-commerce, cross-border consumption, and mobile payment, causing complicated fraudulent uses to increase. E-Sun Bank is aware of the increased credit card loading amounts caused by mobile payment and the management difficulties card-issuing institutions face due to the enormous trading volumes. We have developed our own anti-fraud system through automatic model calculation, behavioral simulation, and prediction to replace manual assessment of exchange digits. The system can effectively detect suspicious and fraudulent exchanges and decreases risks, resulting in a more efficient personnel arrangement and lowering the personnel cost in monitoring. The system enhances the efficiency and accuracy in detection, offering secured services and ensuring client rights. We have also established an anti-money laundering and information security monitoring group in order to collaborate with the Financial Supervisory Committee on preventing money laundering, preventing criminals from laundering money with credit cards and providing a friendly and secure payment environment for our clients.

## 4. Impact of Changes in the Bank's Image on the Company's Risk Management, and Countermeasures

The Company's emphasis on its corporate social responsibilities and customer service has won the affirmation of the public and international organizations. In 2016, E.SUN FHC was included as a constituent stock in the Dow Jones Sustainability Index (DJSI), won its 10th consecutive Taiwan's Excellence in Corporate Social Responsibility Award from Commonwealth Magazine, and won Wealth Magazine's CSR Award in the financial holding company category, Brand Image Award (gold) in the banking category, and Customer Service and Product Award (gold)

in the banking category. Both E.SUN Bank and E.SUN Securities received Wealth Magazine's newly-added Financial Technology Applications Innovation Award. In addition, the well-known The Asset, and Global Finance magazines honored E.SUN Commercial Bank as "Taiwan's Best Bank" on the basis of its financial performance and financial innovation.

In the future, E.SUN will continue to focus on customer's need through financial innovation. We aim to enhance overall performance by linking online to offline business, enhancing overall service quality and operation efficiency to win customers' trust and respect.

## **5. Anticipated Benefits and Possible Risks Associated with Mergers and Acquisitions, and Countermeasures:** None.

## **6. Anticipated Benefits and Possible Risks of Expansion, and Countermeasures**

Through 2017, we have established 163 branch offices (138 domestic branch offices; and branch offices in Los Angeles, Hong Kong, Tokyo, Singapore, Sydney, Dong Nai in Vietnam, Yangon in Myanmar, and China; and the Cambodia UCB Branch office, 25 in total). As we face the Bank 3.0 wave and a higher demand for anti-money laundering methods, we intend to combine actual and virtual channels with high marketing value, strengthening technology risk management and improving information safety, in order to enhance customer experience and personal information safety. We continue to improve and innovate self-serving finance and digital finance, offering a safe, convenient, and consistent service experience to customers of every channel.

## **7. Anticipated Benefits and Possible Risks from Concentration of Operations, and Countermeasures.**

### **7.1 Concentration of Operations**

Monitor any changes in the financial industry, stay abreast of macroeconomic and industrial trends, and adjust business strategies when warranted.

### **7.2 Concentration of Counterparties**

The Bank regulates risk acceptance limits reflecting industry type and group, and makes adjustments based on the prevailing economic conditions and risk conditions. The Bank also

performs regular review of the appropriateness of lending criteria in the case of risk-warning accounts, and faithfully implements mid-term management. This has ensured that the chief risks encountered in the Bank's business development remain within an acceptable scope.

### **7.3 Concentration of Secured Lending Business**

- (1)The Bank has drafted limits on loan percentages based on the type of collateral and the area, and maintains strict control.
- (2)To avoid excessive concentration on real estate loans, based on the need to control real estate credit risk, the Financial Supervisory Commission requires banks to perform self-management of their loan concentration, and determine monitoring mechanisms and indicators.

### **7.4 Concentration of Unsecured Lending Business**

Set ceilings over unsecured loans in accordance with potential borrowers' creditworthiness and age. Strengthen risk management by undertaking control and management accordingly on a regular basis.

## **8. Influence of Changes in Ownership of the Bank, Possible Risks and Countermeasures**

E.SUN Commercial Bank, a 100% owned subsidiary of E.SUN Financial Holding Company at the end of 2016, had no major change in managerial authority.

## **9. Effect upon and risk to the Bank in the event a major quantity of shares belonging to director(s) or shareholder(s) holding greater than 1% stake in the Bank has been transferred or has otherwise changed hands, and mitigation measures:**

Up till the end of 2016, none of the Bank's director or shareholders holding greater than 1% stake in the Bank had transferred a major quantity of shares or had it change hands otherwise.

## **10. Litigious or Non-litigious Incidents:** None.

## **11. Other Major Risk Countermeasures:** None.

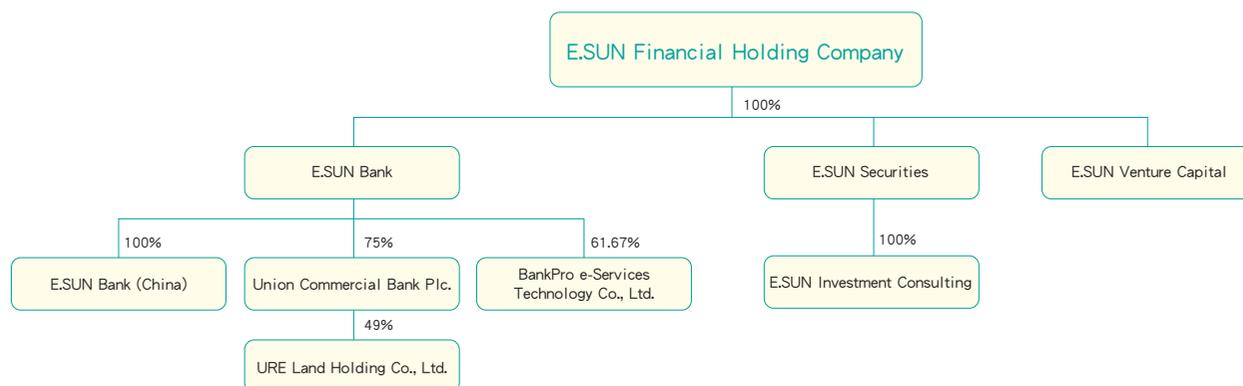
## VIII. Special Disclosure



# 1. Summary of Affiliated Companies

## 1.1 Consolidated Operating Report on Affiliated Companies

### (1) Organization Chart of Affiliated Companies



### (2) Operation Status of Affiliated Companies

As of December 31, 2017 Unit: NT\$ thousand

| Name                                    | Capital    | Total Asset | Total Liability | Net Worth   | 2015 P/L (after tax) | EPS (after tax in NT\$) |
|-----------------------------------------|------------|-------------|-----------------|-------------|----------------------|-------------------------|
| E.SUN FHC                               | 10,185,000 | 157,005,012 | 8,162,796       | 148,842,216 | 14,756,556           | 1.49                    |
| E.SUN Securities                        | 4,000,000  | 15,403,467  | 10,485,615      | 4,917,852   | 234,403              | 0.59                    |
| E.SUN Venture Capital                   | 3,000,000  | 3,419,096   | 12,762          | 3,406,334   | 105,130              | 0.35                    |
| E.SUN Investment Consulting             | 50,000     | 69,422      | 11,266          | 58,156      | 1,783                | 0.36                    |
| Union Commercial Bank Plc.              | 1,123,613  | 16,813,075  | 13,524,408      | 3,288,667   | (643,016)            | (17,147)                |
| URE Land Holding Co., Ltd.              | 30         | 464,764     | 449,562         | 15,202      | (1,893)              | (1,893)                 |
| BankPro e-Services Technology Co., Ltd. | 135,000    | 455,867     | 98,798          | 357,069     | 35,260               | 2.61                    |
| E.SUN Bank (China)                      | 10,038,248 | 35,720,294  | 26,628,010      | 9,092,284   | (346,970)            | (Note 6)                |

\*Note1: The accounts in the Balance Sheet of Union Commercial Bank Plc. are converted to NTD using the exchange rate for settlement of December 31, 2017.

\*Note2: The share par values of Union Commercial Bank Plc. and URE Land Holding Co., Ltd. are US\$1,000 and US\$1 respectively.

### (3) Range of Operations of E.SUN Bank and Affiliates

Business includes banking operations and investment in domestic and overseas banking-related businesses as approved by regulatory agencies and investment management, broking, underwriting and dealing of securities, venture capital, life insurance broking, non-life insurance broking, securities investment consulting, and lease, sales and purchase of real estate. Each affiliate is an independent institution and each carries out its respective line of business.

## 1.2 Report on Affiliation

As of December 31, 2017

| Name of Controlling Company     | Reason of Control | Shareholding and Pledge status of Controlling Company |                    |                      | Representation of Directors, Independent Directors or Managers of Controlling Company |
|---------------------------------|-------------------|-------------------------------------------------------|--------------------|----------------------|---------------------------------------------------------------------------------------|
|                                 |                   | No. of Shareholding                                   | Shareholding Ratio | Pledged Share Number |                                                                                       |
| E.SUN Financial Holding Company | 100% shareholding | 8,312,100,000 shares                                  | 100%               | 0 share              | Title and name as following note                                                      |

\*Note:

Chairman: Kuo-Lieh Tseng

Managing Directors: Jackson Mai, Chen-Chen Chang Lin (also being Independent Director)

Independent Directors: Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Chun-Yao Huang

Directors: Joseph N.C. Huang, Ron-Chu Chen, Chien-Li Wu, Magi Chen, Ben Chen, Mao-Chin Chen

## 1.3 Other Important Transaction:

The Company charged 113 thousand for the co-used info system with E.SUN FHC. Agency fee income from issuance of corporate bond for E.SUN FHC 28 thousand.

## 1.4 Guarantee for Affiliated Companies: None

## 2. Representation of Consolidated Financial Statements of Affiliated Enterprises

### Representation

March 16, 2018

On behalf of E.SUN Commercial Bank, Ltd., we hereby declare that the company's 2018 Affiliation Report (Period from Jan.1, 2017 to Dec. 31, 2017) followed the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises". There is no material discrepancy with the information disclosed in the notes of financial report for the said period.

E.SUN Commercial Bank, Ltd.

Chairman



**3. Private Placement Securities and Financial Debentures in the Most Recent Years:**

None

**4. The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years:**

None

**5. Other Required Supplementary Disclosure:**

None

**E.SUN Commercial Bank, Ltd. and  
Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2017 and 2016 and  
Independent Auditors' Report**



## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders  
E.SUN Commercial Bank, Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of E.SUN Commercial Bank, Ltd. (the Bank) and its subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the 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 Company as of December 31, 2017 and 2016, 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, Regulations Governing the Preparation of Financial Reports by Securities Firms, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

### **Basis for Opinion**

We conducted our audits in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Emphasis of Matter**

As stated in Notes 1 and 46 to the consolidated financial statements, E.SUN Commercial Bank, Ltd. merged with E.SUN Insurance Broker Co., Ltd., a 100% subsidiary of E.SUN Financial Holding Company, Ltd., on March 25, 2016. Under an explanation and Q&A issued by the Accounting Research and Development Foundation of the Republic of China, the merger should be treated as a reorganization. Thus, the Company should restate its consolidated financial statements retrospectively. Our opinion is not modified in respect of this matter.

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2017 are described as follows:

### Allowances for Possible Losses on Loans

The Company is engaged principally in providing loans to customers. As of December 31, 2017, the net amount of discounts and loans of the Company is NT\$1,211,071,275 thousand, which represents approximately 59% of total consolidated assets, and is considered material to the consolidated financial statements as a whole. The Company's management performs loan impairment assessment through reviewing portfolios of loans per month and makes a judgement on whether to recognize impairment losses based on if any observable evidence indicates the possible occurrence of impairment events exists. The amount of impairment losses is the difference between the asset's carrying amount and the present value of estimated future cash flows with consideration to the collaterals and guarantees, discounted at the financial asset's original effective interest rate. Also, the allowance provision has to comply with relevant regulations issued by authorities. Impairment loss on loans is recognized by reducing its carrying amount through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. For accounting policies and relevant information about loan impairment assessment, please refer to Notes 4, 5, and 11 to the consolidated financial statements. We determined allowances for possible losses on loans to be a key audit matter for the year ended December 31, 2017 because the assessment involves critical judgements such as accounting estimates and assumptions made by the Company's management.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Obtain an understanding of and perform test on the relevant internal controls in respect of the Company's loan impairment assessment.
2. Sample individually assessed loans and assess the assumptions used to estimate future cash flows and the reasonableness of the value of collateral.
3. Obtain an understanding of and perform test on the assumptions for and critical factors of collectively assessed loans, including the possibility of the impairment and the recoverability of loan balances, used in the impairment assessment model to verify whether the real outcome of each loan portfolio can be reflected.
4. Test the classification of credit assets in order to assess whether the provision of allowances for possible losses complies with relevant regulations issued by authorities.

### Goodwill Impairment Assessment

The Company's management performs goodwill impairment assessment annually. When performing goodwill impairment assessment, the Company's management needs to determine the value in use of cash-generating units (CGUs) to which goodwill has been allocated. To determine value in use, the Company's management has to estimate the expected future cash flows generated from CGUs and applies the appropriate discount rate to those future cash flows. For accounting policies and relevant information about goodwill impairment assessment, please refer to Notes 4, 5, and 17 to the consolidated financial statements. We determined goodwill impairment assessment to be a key audit matter for the year ended December 31, 2017 because the assessment involves critical judgements such as accounting estimates and assumptions made by the Company's management.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Assess the methodology and assumptions used in goodwill impairment assessment applied by the Company's management.
2. Perform sensitivity analysis in order to assess the extent to which a change in the key assumptions could indicate the risk of an impairment.

### **Other Matter**

We have also audited the financial statements of E.SUN Commercial Bank, Ltd. as of and for the years ended December 31, 2017 and 2016 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Yin-Chou Chen and Jui-Chan Huang.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

March 16, 2018

Notice to Readers

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

*For the convenience of readers, the independent auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.*

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

| ASSETS                                                                         | 2017                           |                   | 2016                           |                   |
|--------------------------------------------------------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
|                                                                                | Amount                         | %                 | Amount                         | %                 |
| CASH AND CASH EQUIVALENTS (Notes 4 and 6)                                      | \$ 54,962,324                  | 3                 | \$ 36,714,344                  | 2                 |
| DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 4 and 7)        | 76,080,043                     | 4                 | 62,731,770                     | 3                 |
| FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 36)      | 407,970,461                    | 20                | 366,077,137                    | 20                |
| SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 9)                   | -                              | -                 | 173,470                        | -                 |
| RECEIVABLES, NET (Notes 4, 10, 35 and 36)                                      | 83,129,858                     | 4                 | 75,992,232                     | 4                 |
| CURRENT TAX ASSETS (Notes 4 and 32)                                            | 5,054                          | -                 | -                              | -                 |
| DISCOUNTS AND LOANS, NET (Notes 4, 11, 35 and 36)                              | 1,211,071,275                  | 59                | 1,118,148,669                  | 60                |
| AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 12 and 36)                  | 170,204,638                    | 8                 | 141,099,283                    | 8                 |
| HELD-TO-MATURITY FINANCIAL ASSETS, NET (Notes 4, 13 and 36)                    | 3,078,813                      | -                 | 3,616,960                      | -                 |
| OTHER FINANCIAL ASSETS, NET (Notes 4 and 14)                                   | 9,426,393                      | 1                 | 27,301,621                     | 2                 |
| PROPERTIES AND EQUIPMENT, NET (Notes 4 and 15)                                 | 27,558,614                     | 1                 | 25,785,381                     | 1                 |
| INVESTMENT PROPERTIES, NET (Notes 4 and 16)                                    | 2,236,989                      | -                 | 2,295,788                      | -                 |
| INTANGIBLE ASSETS, NET (Notes 4 and 17)                                        | 6,138,716                      | -                 | 6,162,335                      | -                 |
| DEFERRED TAX ASSETS (Notes 4 and 32)                                           | 926,378                        | -                 | 423,706                        | -                 |
| OTHER ASSETS, NET (Notes 4, 18, 35 and 37)                                     | <u>3,547,241</u>               | <u>-</u>          | <u>3,608,695</u>               | <u>-</u>          |
| <b>TOTAL</b>                                                                   | <b><u>\$ 2,056,336,797</u></b> | <b><u>100</u></b> | <b><u>\$ 1,870,131,391</u></b> | <b><u>100</u></b> |
| <br><b>LIABILITIES AND EQUITY</b>                                              |                                |                   |                                |                   |
| DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 19)                              | \$ 66,652,215                  | 3                 | \$ 52,516,006                  | 3                 |
| FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 23) | 43,359,847                     | 2                 | 42,091,703                     | 2                 |
| SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 12 and 20)               | 12,200,468                     | 1                 | 8,881,723                      | -                 |
| PAYABLES (Notes 21 and 35)                                                     | 26,406,994                     | 1                 | 23,638,238                     | 1                 |
| CURRENT TAX LIABILITIES (Notes 4, 32 and 35)                                   | 1,382,186                      | -                 | 1,235,474                      | -                 |
| DEPOSITS AND REMITTANCES (Notes 22 and 35)                                     | 1,713,175,352                  | 84                | 1,559,551,047                  | 84                |
| BANK DEBENTURES (Note 23)                                                      | 36,750,000                     | 2                 | 42,250,000                     | 2                 |
| OTHER FINANCIAL LIABILITIES (Notes 24, 35 and 37)                              | 5,949,739                      | -                 | 9,654,553                      | 1                 |
| PROVISIONS (Notes 4, 25 and 26)                                                | 474,835                        | -                 | 417,808                        | -                 |
| DEFERRED TAX LIABILITIES (Notes 4 and 32)                                      | 697,535                        | -                 | 924,744                        | -                 |
| OTHER LIABILITIES (Notes 27 and 35)                                            | <u>2,029,857</u>               | <u>-</u>          | <u>1,935,565</u>               | <u>-</u>          |
| Total liabilities                                                              | <u>1,909,079,028</u>           | <u>93</u>         | <u>1,743,096,861</u>           | <u>93</u>         |
| <b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>                               |                                |                   |                                |                   |
| Capital stock                                                                  |                                |                   |                                |                   |
| Common stock                                                                   | <u>83,121,000</u>              | <u>4</u>          | <u>72,628,830</u>              | <u>4</u>          |
| Capital surplus                                                                |                                |                   |                                |                   |
| Additional paid-in capital from share issuance in excess of par value          | 24,495,245                     | 1                 | 19,491,100                     | 1                 |
| From treasury stock transactions                                               | 483                            | -                 | 483                            | -                 |
| Others                                                                         | <u>370,239</u>                 | <u>-</u>          | <u>346,198</u>                 | <u>-</u>          |
| Total capital surplus                                                          | <u>24,865,967</u>              | <u>1</u>          | <u>19,837,781</u>              | <u>1</u>          |
| Retained earnings                                                              |                                |                   |                                |                   |
| Legal reserve                                                                  | 24,638,417                     | 1                 | 20,721,566                     | 1                 |
| Special reserve                                                                | 149,147                        | -                 | 83,866                         | -                 |
| Unappropriated earnings                                                        | <u>14,006,670</u>              | <u>1</u>          | <u>13,056,168</u>              | <u>1</u>          |
| Total retained earnings                                                        | <u>38,794,234</u>              | <u>2</u>          | <u>33,861,600</u>              | <u>2</u>          |
| Other equity                                                                   | <u>363,337</u>                 | <u>-</u>          | <u>42,680</u>                  | <u>-</u>          |
| Total equity attributable to owners of the Bank                                | 147,144,538                    | 7                 | 126,370,891                    | 7                 |
| <b>NON-CONTROLLING INTERESTS</b>                                               | <u>113,231</u>                 | <u>-</u>          | <u>663,639</u>                 | <u>-</u>          |
| Total equity                                                                   | <u>147,257,769</u>             | <u>7</u>          | <u>127,034,530</u>             | <u>7</u>          |
| <b>TOTAL</b>                                                                   | <b><u>\$ 2,056,336,797</u></b> | <b><u>100</u></b> | <b><u>\$ 1,870,131,391</u></b> | <b><u>100</u></b> |

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

(With Deloitte & Touche auditors' report dated March 16, 2018)

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|                                                                                                 | <u>2017</u>         |             | <u>2016</u>         |             | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|-------------------------------------------------------------------------------------------------|---------------------|-------------|---------------------|-------------|-----------------------------------------------|
|                                                                                                 | <b>Amount</b>       | <b>%</b>    | <b>Amount</b>       | <b>%</b>    | <b>%</b>                                      |
| INTEREST REVENUE (Notes 4, 28 and 35)                                                           | \$ 32,656,734       | 73          | \$ 29,530,082       | 73          | 11                                            |
| INTEREST EXPENSE (Notes 4, 28 and 35)                                                           | <u>(12,641,898)</u> | <u>(28)</u> | <u>(11,111,075)</u> | <u>(27)</u> | 14                                            |
| NET INTEREST                                                                                    | <u>20,014,836</u>   | <u>45</u>   | <u>18,419,007</u>   | <u>46</u>   | 9                                             |
| NET REVENUES AND GAINS OTHER THAN INTEREST                                                      |                     |             |                     |             |                                               |
| Service fee income, net (Notes 4, 29 and 35)                                                    | 14,903,396          | 33          | 14,939,301          | 37          | -                                             |
| Gains on financial assets and liabilities at fair value through profit or loss (Notes 4 and 30) | 1,011,060           | 2           | 5,459,684           | 13          | (81)                                          |
| Realized gains on available-for-sale financial assets (Note 4)                                  | 632,356             | 1           | 337,507             | 1           | 87                                            |
| Foreign exchange gains, net (Note 4)                                                            | 7,959,848           | 18          | 778,038             | 2           | 923                                           |
| Reversal of impairment losses (impairment losses) on assets (Notes 4 and 16)                    | 345                 | -           | (125)               | -           | 376                                           |
| Other noninterest gains, net (Notes 4 and 35)                                                   | <u>336,857</u>      | <u>1</u>    | <u>343,650</u>      | <u>1</u>    | (2)                                           |
| Total net revenues and gains other than interest                                                | <u>24,843,862</u>   | <u>55</u>   | <u>21,858,055</u>   | <u>54</u>   | 14                                            |
| TOTAL NET REVENUES                                                                              | <u>44,858,698</u>   | <u>100</u>  | <u>40,277,062</u>   | <u>100</u>  | 11                                            |
| BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON GUARANTEES (Notes 4 and 11)                       | <u>(3,868,941)</u>  | <u>(9)</u>  | <u>(3,462,064)</u>  | <u>(9)</u>  | 12                                            |
| OPERATING EXPENSES (Notes 4, 15, 16, 17, 26, 31 and 35)                                         |                     |             |                     |             |                                               |
| Employee benefits                                                                               | (10,720,018)        | (24)        | (9,618,254)         | (24)        | 11                                            |
| Depreciation and amortization                                                                   | (1,780,653)         | (4)         | (1,452,274)         | (3)         | 23                                            |
| General and administrative                                                                      | <u>(11,535,788)</u> | <u>(25)</u> | <u>(10,312,995)</u> | <u>(26)</u> | 12                                            |
| Total operating expenses                                                                        | <u>(24,036,459)</u> | <u>(53)</u> | <u>(21,383,523)</u> | <u>(53)</u> | 12                                            |

(Continued)

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|                                                                                                                                                  | 2017               |            | 2016               |            | Percentage<br>Increase<br>(Decrease) |
|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|------------|--------------------|------------|--------------------------------------|
|                                                                                                                                                  | Amount             | %          | Amount             | %          | %                                    |
| INCOME BEFORE INCOME TAX                                                                                                                         | \$ 16,953,298      | 38         | \$ 15,431,475      | 38         | 10                                   |
| INCOME TAX EXPENSE (Notes 4 and 32)                                                                                                              | <u>(2,167,696)</u> | <u>(5)</u> | <u>(2,171,365)</u> | <u>(5)</u> | -                                    |
| NET INCOME FOR THE YEAR                                                                                                                          | <u>14,785,602</u>  | <u>33</u>  | <u>13,260,110</u>  | <u>33</u>  | 12                                   |
| OTHER COMPREHENSIVE INCOME                                                                                                                       |                    |            |                    |            |                                      |
| Items that will not be reclassified subsequently to profit or loss (Notes 4, 26 and 32):                                                         |                    |            |                    |            |                                      |
| Remeasurement of defined benefit plans                                                                                                           | (52,783)           | -          | 20,055             | -          | (363)                                |
| Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss | (42,931)           | -          | (46,523)           | -          | (8)                                  |
| Income tax relating to items that will not be reclassified subsequently to profit or loss                                                        | <u>34</u>          | <u>-</u>   | <u>574</u>         | <u>-</u>   | (94)                                 |
| Items that will not be reclassified subsequently to profit or loss, net of income tax                                                            | <u>(95,680)</u>    | <u>-</u>   | <u>(25,894)</u>    | <u>-</u>   | 270                                  |
| Items that may be reclassified subsequently to profit or loss (Notes 4 and 32):                                                                  |                    |            |                    |            |                                      |
| Exchange differences on the translation of financial statements of foreign operations                                                            | (928,030)          | (2)        | (1,508,601)        | (4)        | (38)                                 |
| Unrealized gains (losses) on available-for-sale financial assets                                                                                 | 1,144,119          | 2          | (287,154)          | (1)        | 498                                  |

(Continued)

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

|                                                                                      | 2017                 |            | 2016                 |            | Percentage<br>Increase<br>(Decrease) |
|--------------------------------------------------------------------------------------|----------------------|------------|----------------------|------------|--------------------------------------|
|                                                                                      | Amount               | %          | Amount               | %          | %                                    |
| Income tax relating to items that may be reclassified subsequently to profit or loss | \$ 98,814            | -          | \$ 234,704           | 1          | (58)                                 |
| Items that may be reclassified subsequently to profit or loss, net of income tax     | <u>314,903</u>       | -          | <u>(1,561,051)</u>   | <u>(4)</u> | 120                                  |
| Other comprehensive income (loss) for the year, net of income tax                    | <u>219,223</u>       | -          | <u>(1,586,945)</u>   | <u>(4)</u> | 114                                  |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>                                       | <u>\$ 15,004,825</u> | <u>33</u>  | <u>\$ 11,673,165</u> | <u>29</u>  | 29                                   |
| <b>NET INCOME ATTRIBUTABLE TO:</b>                                                   |                      |            |                      |            |                                      |
| Owners of the Bank                                                                   | \$ 14,886,870        | 33         | \$ 13,265,263        | 33         | 12                                   |
| Owners of eliminated company in business combination under common control            | -                    | -          | 146,088              | -          | (100)                                |
| Non-controlling interests                                                            | <u>(101,268)</u>     | <u>-</u>   | <u>(151,241)</u>     | <u>-</u>   | <u>(33)</u>                          |
|                                                                                      | <u>\$ 14,785,602</u> | <u>33</u>  | <u>\$ 13,260,110</u> | <u>33</u>  | 12                                   |
| <b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>                                   |                      |            |                      |            |                                      |
| Owners of the Bank                                                                   | \$ 15,141,299        | 34         | \$ 11,693,311        | 29         | 29                                   |
| Owners of eliminated company in business combination under common control            | -                    | -          | 146,088              | -          | (100)                                |
| Non-controlling interests                                                            | <u>(136,474)</u>     | <u>(1)</u> | <u>(166,234)</u>     | <u>-</u>   | <u>(18)</u>                          |
|                                                                                      | <u>\$ 15,004,825</u> | <u>33</u>  | <u>\$ 11,673,165</u> | <u>29</u>  | 29                                   |
| <b>EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 33)</b>                              |                      |            |                      |            |                                      |
| Basic                                                                                | <u>\$1.85</u>        |            | <u>\$1.74</u>        |            |                                      |

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

(With Deloitte & Touche auditors' report dated March 16, 2018)

(Concluded)

**E-SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars)

|                                                                                    | Equity Attributable to Owners of the Bank           |               |                                     |               |                                                           | Other Equity                                                                                                                |                                                                                      |                                                                                                                                                                                         | Total Equity |                                                                                                                          |                                                         |
|------------------------------------------------------------------------------------|-----------------------------------------------------|---------------|-------------------------------------|---------------|-----------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|
|                                                                                    | Capital Stock (Note 34)<br>Shares<br>(In Thousands) | Common Stock  | Capital Surplus<br>(Notes 4 and 34) | Legal Reserve | Retained Earnings (Notes 4, 34 and 44)<br>Special Reserve | Exchange<br>Differences on<br>the Translation<br>of Financial<br>Statements of<br>Foreign<br>Operations<br>(Notes 4 and 44) | Unrealized<br>Gains on<br>Available-for-sale<br>Financial Assets<br>(Notes 4 and 44) | Changes in the<br>Fair Value<br>Attributable to<br>Changes in<br>the Credit Risk<br>of Financial<br>Liabilities<br>Designated as at<br>Fair Value<br>Through Profit or<br>Loss (Note 4) |              | Equity<br>Attributable to<br>Owners of<br>Eliminated<br>Company in<br>Business<br>Combination<br>under Common<br>Control | Non-controlling<br>Interests<br>(Notes 4, 34<br>and 44) |
| BALANCE AT JANUARY 1, 2016                                                         | 6,684,000                                           | \$ 66,840,000 | \$ 19,139,073                       | \$ 17,204,363 | \$ 83,866                                                 | \$ 11,724,011                                                                                                               | \$ 447,623                                                                           | \$ (144,933)                                                                                                                                                                            | \$ -         | \$ 733,792                                                                                                               | \$ 117,125,102                                          |
| Adjustments of business combination under common control                           | -                                                   | -             | -                                   | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | 1,133,244    | -                                                                                                                        | 1,133,244                                               |
| BALANCE AT JANUARY 1, 2016 AS RESTATED                                             | 6,684,000                                           | 66,840,000    | 19,139,073                          | 17,204,363    | 83,866                                                    | 11,724,011                                                                                                                  | 447,623                                                                              | (144,933)                                                                                                                                                                               | 1,133,244    | 733,792                                                                                                                  | 118,258,346                                             |
| Appropriation of 2015 earnings                                                     | -                                                   | -             | -                                   | 3,517,203     | -                                                         | (3,517,203)                                                                                                                 | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Legal reserve                                                                      | -                                                   | -             | -                                   | (2,854,268)   | -                                                         | (2,854,268)                                                                                                                 | -                                                                                    | -                                                                                                                                                                                       | (487,213)    | -                                                                                                                        | (3,341,581)                                             |
| Cash dividends                                                                     | 534,700                                             | 5,347,000     | -                                   | (5,347,000)   | -                                                         | (5,347,000)                                                                                                                 | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Stock dividends                                                                    | -                                                   | -             | -                                   | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Share-based payment arrangements involving ESFHC's common stock                    | -                                                   | -             | 348,324                             | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | 195          | -                                                                                                                        | 348,519                                                 |
| Cash dividends distributed by subsidiary                                           | -                                                   | -             | -                                   | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | (8,125)                                                                                                                  | (8,125)                                                 |
| Changes in non-controlling interests                                               | -                                                   | -             | -                                   | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | 104,206                                                                                                                  | 104,206                                                 |
| Net income for the year ended December 31, 2016                                    | -                                                   | -             | -                                   | -             | -                                                         | 13,265,263                                                                                                                  | -                                                                                    | -                                                                                                                                                                                       | -            | (151,241)                                                                                                                | 13,260,110                                              |
| Other comprehensive loss for the year ended December 31, 2016, net of income tax   | -                                                   | -             | -                                   | -             | -                                                         | (214,635)                                                                                                                   | (2,240,584)                                                                          | 189,815                                                                                                                                                                                 | -            | (14,993)                                                                                                                 | (1,586,945)                                             |
| Total comprehensive income for the year ended December 31, 2016                    | -                                                   | -             | -                                   | -             | -                                                         | 13,050,628                                                                                                                  | (1,240,584)                                                                          | 189,815                                                                                                                                                                                 | 146,088      | (166,234)                                                                                                                | 11,673,165                                              |
| Business combination under common control                                          | 44,183                                              | 441,850       | 350,384                             | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | (792,214)    | -                                                                                                                        | -                                                       |
| BALANCE AT DECEMBER 31, 2016                                                       | 7,262,883                                           | 72,628,830    | 19,837,781                          | 20,721,566    | 83,866                                                    | 13,056,168                                                                                                                  | 141,075                                                                              | 44,882                                                                                                                                                                                  | -            | 663,639                                                                                                                  | 127,034,530                                             |
| Appropriation of 2016 earnings                                                     | -                                                   | -             | -                                   | 3,916,851     | -                                                         | (3,916,851)                                                                                                                 | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Legal reserve                                                                      | -                                                   | -             | -                                   | (65,281)      | -                                                         | (65,281)                                                                                                                    | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Special reserve                                                                    | -                                                   | -             | -                                   | -             | 65,281                                                    | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Cash dividends                                                                     | 445,217                                             | 4,452,170     | -                                   | -             | -                                                         | (4,619,000)                                                                                                                 | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | (4,619,000)                                             |
| Stock dividends                                                                    | -                                                   | -             | -                                   | -             | -                                                         | (4,452,170)                                                                                                                 | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | -                                                       |
| Capital increase                                                                   | 604,000                                             | 6,040,000     | 4,460,000                           | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | 10,500,000                                              |
| Share-based payment arrangements involving ESFHC's common stock                    | -                                                   | -             | 568,186                             | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | -                                                                                                                        | 568,186                                                 |
| Cash dividends distributed by subsidiary                                           | -                                                   | -             | -                                   | -             | -                                                         | -                                                                                                                           | -                                                                                    | -                                                                                                                                                                                       | -            | (9,315)                                                                                                                  | (9,315)                                                 |
| Acquisition of interest in subsidiary                                              | -                                                   | -             | -                                   | -             | -                                                         | (830,475)                                                                                                                   | 1,477                                                                                | -                                                                                                                                                                                       | -            | (408,619)                                                                                                                | (1,221,457)                                             |
| Net income for the year ended December 31, 2017                                    | -                                                   | -             | -                                   | -             | -                                                         | 14,886,870                                                                                                                  | -                                                                                    | -                                                                                                                                                                                       | -            | (101,268)                                                                                                                | 14,785,602                                              |
| Other comprehensive income for the year ended December 31, 2017, net of income tax | -                                                   | -             | -                                   | -             | -                                                         | (52,591)                                                                                                                    | (742,846)                                                                            | (43,025)                                                                                                                                                                                | -            | (35,206)                                                                                                                 | (1,130,662)                                             |
| Total comprehensive income for the year ended December 31, 2017                    | -                                                   | -             | -                                   | -             | -                                                         | 14,834,279                                                                                                                  | (742,846)                                                                            | (43,025)                                                                                                                                                                                | -            | (136,474)                                                                                                                | 15,004,825                                              |
| BALANCE AT DECEMBER 31, 2017                                                       | 8,312,100                                           | \$ 83,121,000 | \$ 24,865,967                       | \$ 24,638,417 | \$ 149,147                                                | \$ 14,006,670                                                                                                               | \$ 1,235,443                                                                         | \$ 1,857                                                                                                                                                                                | \$ -         | \$ 115,231                                                                                                               | \$ 147,257,769                                          |

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche auditors' report dated March 16, 2018)

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

|                                                                                | 2017              | 2016             |
|--------------------------------------------------------------------------------|-------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                    |                   |                  |
| Income before income tax                                                       | \$ 16,953,298     | \$ 15,431,475    |
| Adjustments for:                                                               |                   |                  |
| Depreciation expenses                                                          | 1,215,688         | 1,006,524        |
| Amortization expenses                                                          | 564,965           | 445,750          |
| Bad-debt expenses                                                              | 3,862,778         | 3,498,794        |
| Gains on financial assets and liabilities at fair value through profit or loss | (1,011,060)       | (5,459,684)      |
| Interest expense                                                               | 12,641,898        | 11,111,075       |
| Interest revenue                                                               | (32,656,734)      | (29,530,082)     |
| Dividend income                                                                | (272,771)         | (194,042)        |
| Provision (reversal of provision) for losses on guarantees                     | 6,163             | (36,730)         |
| Salary expenses on share-based payments                                        | 568,186           | 348,519          |
| Losses on disposal of properties and equipment                                 | 29,878            | 8,563            |
| Gains on disposal of investments                                               | (409,443)         | (195,256)        |
| Impairment losses on non-financial assets                                      | -                 | 125              |
| Reversal of impairment losses on non-financial assets                          | (345)             | -                |
| Net changes in operating assets and liabilities                                |                   |                  |
| Decrease (increase) in due from the Central Bank and call loans to other banks | (12,748,087)      | 1,910,456        |
| Increase in financial assets at fair value through profit or loss              | (27,718,286)      | (7,304,617)      |
| Decrease in securities purchased under resell agreements                       | 140,934           | 755,910          |
| Increase in receivables                                                        | (7,317,622)       | (5,072,484)      |
| Increase in discounts and loans                                                | (96,024,898)      | (99,950,321)     |
| Increase in available-for-sale financial assets                                | (30,535,217)      | (14,130,235)     |
| Decrease in held-to-maturity financial assets                                  | 501,592           | 1,528,142        |
| Decrease in other financial assets                                             | 17,798,466        | 12,768,246       |
| Decrease in other assets                                                       | 27,119            | 62,430           |
| Increase (decrease) in due to the Central Bank and other banks                 | 14,136,209        | (18,654,124)     |
| Decrease in financial liabilities at fair value through profit or loss         | (16,605,172)      | (1,864,186)      |
| Increase in securities sold under repurchase agreements                        | 3,318,745         | 847,332          |
| Increase in payables                                                           | 2,264,077         | 5,407,409        |
| Increase in deposits and remittances                                           | 153,624,305       | 101,491,045      |
| Increase (decrease) in other financial liabilities                             | (1,596,966)       | 5,431,455        |
| Decrease in provision for employee benefits                                    | (2,011)           | (3,680)          |
| Increase in other liabilities                                                  | 18,859            | 84,817           |
| Cash generated from (used in) operations                                       | 774,548           | (20,257,374)     |
| Interest received                                                              | 38,971,531        | 35,759,546       |
| Dividend received                                                              | 289,268           | 203,383          |
| Interest paid                                                                  | (12,872,727)      | (12,406,427)     |
| Income tax paid                                                                | (2,647,631)       | (1,986,256)      |
| Net cash generated from operating activities                                   | <u>24,514,989</u> | <u>1,312,872</u> |

(Continued)

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

|                                                                  | 2017                 | 2016                 |
|------------------------------------------------------------------|----------------------|----------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES                             |                      |                      |
| Net cash outflow on acquisition of subsidiary (Note 45)          | \$ -                 | \$ (140,651)         |
| Payments for properties and equipment                            | (3,204,058)          | (2,606,933)          |
| Proceeds from disposal of properties and equipment               | 1,008                | 51                   |
| Increase in refundable deposits                                  | (12,405)             | -                    |
| Decrease in refundable deposits                                  | -                    | 1,410,365            |
| Payments for intangible assets                                   | (448,984)            | (389,791)            |
| Payments for investment properties                               | -                    | (56,613)             |
| Increase in other assets                                         | (2,701)              | (3,810)              |
|                                                                  | <u>(3,667,140)</u>   | <u>(1,787,382)</u>   |
| Net cash used in investing activities                            |                      |                      |
|                                                                  | <u>(3,667,140)</u>   | <u>(1,787,382)</u>   |
| CASH FLOWS FROM FINANCING ACTIVITIES                             |                      |                      |
| Repayments of short-term borrowings                              | (161,395)            | (216,955)            |
| Repayments of bank debentures                                    | (5,500,000)          | (2,700,000)          |
| Proceeds from long-term borrowings                               | 767,608              | 2,582,320            |
| Repayments of long-term borrowings                               | (2,766,867)          | -                    |
| Increase in guarantee deposits received                          | 92,056               | 8,020                |
| Cash dividends paid to owners of the Bank                        | (4,619,000)          | (3,341,581)          |
| Capital increase                                                 | 10,500,000           | -                    |
| Cash dividends paid to non-controlling interests                 | (9,315)              | (8,125)              |
| Change in non-controlling interests (Note 44)                    | (1,221,457)          | -                    |
|                                                                  | <u>(2,918,370)</u>   | <u>(3,676,321)</u>   |
| Net cash used in financing activities                            |                      |                      |
|                                                                  | <u>(2,918,370)</u>   | <u>(3,676,321)</u>   |
| EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH<br>EQUIVALENTS | <u>908,537</u>       | <u>1,592,477</u>     |
| NET INCREASE (DECREASE) IN CASH AND CASH<br>EQUIVALENTS          | 18,838,016           | (2,558,354)          |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE<br>YEAR        | <u>39,079,843</u>    | <u>41,638,197</u>    |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR                 | <u>\$ 57,917,859</u> | <u>\$ 39,079,843</u> |

(Continued)

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars)

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|                                                                                                                                                                                    | <u>December 31</u>   |                      |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                                                                                                    | 2017                 | 2016                 |
| RECONCILIATIONS OF THE AMOUNTS IN THE CONSOLIDATED STATEMENTS OF CASH FLOWS WITH THE EQUIVALENT ITEMS REPORTED IN THE CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2017 AND 2016 |                      |                      |
| Cash and cash equivalents in the consolidated balance sheets                                                                                                                       | \$ 54,962,324        | \$ 36,714,344        |
| Due from the Central Bank and call loans to other banks in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”                                         | 2,955,535            | 2,332,963            |
| Securities purchased under resell agreements in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”                                                    | <u>-</u>             | <u>32,536</u>        |
| Cash and cash equivalents at the end of the year                                                                                                                                   | <u>\$ 57,917,859</u> | <u>\$ 39,079,843</u> |

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

(With Deloitte & Touche auditors’ report dated March 16, 2018)

(Concluded)

# **E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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### **1. ORGANIZATION AND OPERATIONS**

E.SUN Commercial Bank, Ltd. (the Bank) engages in banking activities permitted by the Banking Law.

As of December 31, 2017, the Bank had 150 units, including a business department, an international banking department, a trust department, a credit card and payment division, an offshore banking unit (OBU), an insurance agent department, 7 overseas branches, 137 domestic branches.

The operations of the Bank's Trust Department consist of planning, managing and operating the trust business. These operations are regulated under the Banking Law and Trust Law of the Republic of China (ROC).

On December 10, 2001, the Bank's stockholders resolved the establishment of E.SUN Financial Holding Company, Ltd. (ESFHC) through a share swap. Thus, ESFHC acquired the shares of the Bank, E.SUN Bills Finance Corp. (E.SUN Bills) and E.SUN Securities Corp. (E.SUN Securities). The board of directors designated January 28, 2002 as the effective date of the related share swap. After the share swap, the Bank became a 100% subsidiary of ESFHC. Also, on January 28, 2002, the trading of the Bank's stock on the Taiwan Stock Exchange (TSE) was stopped, and ESFHC's stock started to be traded on the TSE.

To integrate resources, enhance operating effectiveness, strengthen the Bank's equity structure, and ensure its long-term development, the stockholders resolved the Bank's merge with E.SUN Bills on August 25, 2006, with the Bank as the surviving entity. The effective date of this merger is December 25, 2006.

The Bank acquired the assets, liabilities and business of Chiayi The Fourth Credit Cooperative and Chu Nan Credit-Cooperative Association on November 3, 2012 and July 9, 2011, respectively.

Union Commercial Bank PLC. (UCB) was founded in March 1994, under the Laws of the Kingdom of Cambodia. UCB is engaged in banking activities permitted by the Laws of the Kingdom of Cambodia. The Bank acquired 70% equity interest of UCB on August 28, 2013, and on December 29, 2015, the Bank acquired from non-controlling interests for additional 5% shares of UCB, which increased its continuing interest from 70% to 75%. The Bank acquired residual 25% equity interest of UCB on August 25, 2017. Please refer to Note 44.

In January 2016, E.SUN Bank (China), Ltd. (ESBC) began its formal launch after acquiring the approval of the Financial Supervisory Commission (FSC) and the China Bank Regulatory Commission. The registered capital of ESBC is CNY2 billion, and ESBC has been opened on March 11, 2016. ESBC is engaged in banking activities permitted by the Laws of Mainland China.

To expand economies of scale, improve integrated marketing, reduce operating costs and develop operating synergy, the stockholders resolved the Bank's merge with E.SUN Insurance Broker Co., Ltd. (ESIB) on August 21, 2015, with the Bank as the surviving entity. The effective date of this merger is March 25, 2016. Please refer to Note 46.

To expand business in electronic commerce, the Bank's board of directors resolved the acquisition of 7,875 thousand common shares of BankPro E-Service Technology Co., Ltd. (BankPro) on November 13, 2015. This acquisition was approved by the authorities and settled on January 11, 2016, and BankPro was included in the consolidated financial statements from the acquisition date. Please refer to Note 45.

BankPro is engaged in retail sale of computer software, software design service, data processing service, digital information supply service and business consultant.

The operating units of the Bank and its subsidiaries (collectively, the Company) maintain their accounts in their respective functional currencies. The consolidated financial statements are presented in New Taiwan dollars.

For the years ended December 31, 2017 and 2016, the average number of employees of the Company (ESBC, UCB and BankPro excluded) was 8,155 and 7,754, respectively. For the years ended December 31, 2017 and 2016, the average number of employees of ESBC, UCB and BankPro was 680 and 623, respectively.

## **2. APPROVAL OF FINANCIAL STATEMENTS**

The board of directors approved and authorized for issue of the consolidated financial statements in their meeting on March 16, 2018.

## **3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS**

- a. Influences of the Company initially applied amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) (collectively, the IFRSs) endorsed and issued into effect by the FSC

Except for the following, whenever applied, the initial application of related amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Company's accounting policies:

### Amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president, or is the spouse or second immediate family of the chairman of the board of directors or president of the Company are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions are enhanced. Please refer to Note 35.

- b. Influences of the Company had applied the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and the new IFRSs endorsed and issued into effect by the FSC for application starting from 2018 and the amendments to IFRS 9 for early adoption starting from 2018.

| <b>New, Amended or Revised Standards and Interpretations<br/>(the New IFRSs)</b>                | <b>Effective Date<br/>Announced by IASB (Note 1)</b> |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------|
| Annual Improvements to IFRSs 2014-2016 Cycle                                                    | Note 2                                               |
| Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”        | January 1, 2018                                      |
| Amendments to IFRS 4 “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”    | January 1, 2018                                      |
| IFRS 9 “Financial Instruments”                                                                  | January 1, 2018                                      |
| Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures” | January 1, 2018                                      |
| Amendments to IFRS 9 “Prepayment Features with Negative Compensation”                           | January 1, 2019 (Note 3)                             |
| IFRS 15 “Revenue from Contracts with Customers”                                                 | January 1, 2018                                      |
| Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”         | January 1, 2018                                      |
| Amendment to IAS 7 “Disclosure Initiative”                                                      | January 1, 2017                                      |
| Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”                 | January 1, 2017                                      |
| Amendments to IAS 40 “Transfers of Investment Property”                                         | January 1, 2018                                      |
| IFRIC 22 “Foreign Currency Transactions and Advance Consideration”                              | January 1, 2018                                      |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

Note 3: The amendments to IFRS 9 are not yet endorsed by the FSC; however, the FSC permits that entities may elect to early adopt the amendments starting from 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Company’s accounting policies, except for the following:

- 1) IFRS 9 “Financial Instruments” and related amendment

Classification, measurement and impairment of financial assets

With regard to financial assets, all recognized financial assets that are within the scope of IAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortized cost or fair value.

For the Company's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with any impairment loss recognized in profit or loss. Interest revenue is recognized in profit or loss by using the effective interest method; and
- b) For debt instruments held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gains or losses shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Company may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

The Company elects to early adopt the amendments to IFRS 9 "Prepayment Features with Negative Compensation" when applying IFRS 9 starting from 2018. The amendments stipulated that for the purpose of assessing whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the prepayment amount of a contractual term may include reasonable compensation that shall be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

The Company analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

- a) Equity investments classified as available-for-sale financial assets will be classified as financial assets measured at fair value through profit or loss, and the changes in fair value are recognized in profit or loss; or such equity investments will be designated as at fair value through other comprehensive income, and the gains or losses on the changes in fair value which are accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

Equity investments in unlisted shares carried at cost should be measured at fair value.

- b) Debt investments classified as available-for-sale and debt instruments with no active market will be classified as at fair value through other comprehensive income because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

- c) Debt investments classified as held-to-maturity financial assets and measured at amortized cost will be classified as measured at amortized cost because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

IFRS 9 requires impairment loss on financial assets to be recognized by using the “Expected Credit Losses Model”. A loss allowance is required for financial assets measured at amortized cost, investments in debt instruments measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 “Revenue from Contracts with Customers”, certain written loan commitments and financial guarantee contracts. A loss allowance for 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full-lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full-lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Company takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

The Company has performed a preliminary assessment of the Company’s application of the simplified approach to recognize full-lifetime expected credit losses for accounts receivables, contract assets and lease receivables. In relation to the debt instrument investments and the financial guarantee contracts, the Company will assess whether there has been a significant increase in the credit risk to determine whether to recognize 12-month or full-lifetime expected credit losses. In general, the Company anticipates that the application of the expected credit losses model of IFRS 9 will result in earlier recognition of credit losses for financial assets.

#### Transition of classification, measurement and impairment of financial assets

The Company elects not to restate prior periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

|                                                                   | <b>Carrying<br/>Amount as of<br/>December 31,<br/>2017</b> | <b>Adjustments<br/>Arising from<br/>Initial<br/>Application</b> | <b>Adjusted<br/>Carrying<br/>Amount as of<br/>January 1, 2018</b> |
|-------------------------------------------------------------------|------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------|
| <u>Impact on assets, liabilities and equity</u>                   |                                                            |                                                                 |                                                                   |
| Financial assets at fair value through profit or loss             | \$ 407,970,461                                             | \$ 1,075,289                                                    | \$ 409,045,750                                                    |
| Financial assets at fair value through other comprehensive income | -                                                          | 170,866,341                                                     | 170,866,341                                                       |
| Available-for-sale financial assets                               | 170,204,638                                                | (170,204,638)                                                   | -                                                                 |
| Held-to-maturity financial assets                                 | 3,078,813                                                  | (3,078,813)                                                     | -                                                                 |
| Financial assets measured at amortized cost                       | -                                                          | 3,078,219                                                       | 3,078,219                                                         |
| Financial assets carried at cost                                  | 537,515                                                    | (537,515)                                                       | -                                                                 |
| Debt instruments with no active market                            | 596,960                                                    | (596,960)                                                       | -                                                                 |
| Receivables, net                                                  | 83,129,858                                                 | <u>(1,024)</u>                                                  | 83,128,834                                                        |
| Total effect on assets                                            |                                                            | <u>\$ 600,899</u>                                               |                                                                   |
| Deferred tax liabilities                                          | 697,535                                                    | \$ 112                                                          | 697,647                                                           |
| Provision for losses on guarantees                                | 129,547                                                    | 3,005                                                           | 132,552                                                           |
| Provision for financing commitments                               | -                                                          | <u>261,249</u>                                                  | 261,249                                                           |
| Total effect on liabilities                                       |                                                            | <u>\$ 264,366</u>                                               |                                                                   |
| Retained earnings                                                 | 38,794,234                                                 | \$ (253,907)                                                    | 38,540,327                                                        |
| Other equity                                                      | 363,337                                                    | <u>590,440</u>                                                  | 953,777                                                           |
| Total effect on equity                                            |                                                            | <u>\$ 336,533</u>                                               |                                                                   |

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company has performed an assessment and found no significant impact on the Company's financial position and financial performance due to the application of other standards and interpretations.

- c. Not yet applied new IFRSs announced by IASB but not yet endorsed by the FSC

| <u>New IFRSs</u>                                                                                                         | <u>Effective Date<br/>Announced by IASB (Note 1)</u> |
|--------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|
| “Annual Improvements to IFRSs 2015-2017 Cycle”                                                                           | January 1, 2019                                      |
| Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” | To be determined by IASB                             |
| IFRS 16 “Leases”                                                                                                         | January 1, 2019 (Note 2)                             |
| IFRS 17 “Insurance Contracts”                                                                                            | January 1, 2021                                      |
| Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”                                                         | January 1, 2019 (Note 3)                             |
| Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”                                              | January 1, 2019                                      |
| IFRIC 23 “Uncertainty Over Income Tax Treatments”                                                                        | January 1, 2019                                      |

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 3: The Company shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; the interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Company as lessor.

When IFRS 16 becomes effective, the Company may elect to apply this standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this standard recognized at the date of initial application.

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Company should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Company concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Company should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Company should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Company has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Company shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing the possible impact that the application of other standards and interpretations will have on the Company’s financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of Compliance**

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and IFRSs as endorsed and issued into effect by the FSC.

##### **Basis of Preparation**

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of defined benefit obligation less the fair value of plan assets.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- b. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- c. Level 3 inputs are unobservable inputs for the asset or liability.

##### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (UCB (including UCB's subsidiary), ESBC, and BankPro).

The accounting policies of the Bank and subsidiaries are consistent.

All significant intercompany transactions and balances have been eliminated for consolidation purposes. The Bank's financial statements include the accounts of the head office, OBU, and all branches. All intra-bank transactions and balances have been eliminated.

Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

For more information on the consolidated entities, please refer to Table 1 (attached).

##### **Foreign-currency Transactions**

The Bank records foreign-currency transactions in the respective currencies in which these are denominated. Every month-end, foreign currency income and expenses are translated into New Taiwan dollars at the prevailing exchange rates. At month-end, monetary assets and liabilities denominated in foreign currencies are reported using the prevailing exchange rates, and exchange differences are recognized in profit or loss. Nonmonetary assets and liabilities measured at fair value are translated using the prevailing exchange rates at month-end. Translation differences on nonmonetary assets and liabilities measured at fair value are recognized in profit or loss, except for translation difference arising from nonmonetary items of which the change in fair values is recognized in other comprehensive income, in which case, the translation differences are also recognized directly in other comprehensive income. Nonmonetary assets and liabilities that are classified as carried at cost are recognized at the exchange rate on the transaction date.

In preparing the consolidated financial statements, foreign operations' financial statements are translated at the following rates: Assets and liabilities - the prevailing exchange rates on the balance sheet date; and income and expenses - at the average exchange rate for the period. Translation difference net of income tax is recorded as "other comprehensive income" and accumulated in equity, and is attributed to the owner of the Bank and non-controlling interests.

### **Current and Noncurrent Assets and Liabilities**

The consolidated financial statements, however, do not show the classification of current or noncurrent assets/liabilities because the banking industry accounts for the major parts of the consolidated accounts. Thus, accounts in the consolidated financial statements are instead categorized by nature and sequenced by their liquidity.

### **Cash and Cash Equivalents**

In the consolidated balance sheet, cash and cash equivalents comprise cash on hand and demand deposits, together with short-term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. In the consolidated statement of cash flows, cash and cash equivalents comprise cash and cash equivalents defined in the consolidated balance sheet, due from the Central Bank, call loans to other banks and securities purchased under resell agreements that correspond to the definition of cash and cash equivalents in IAS 7 - "Statement of Cash Flows," as endorsed and issued into effect by the FSC.

### **Financial Instruments**

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

#### Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

##### a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss (FVTPL), available-for-sale (AFS) financial assets, held-to-maturity financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

##### 1) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or designated as at FVTPL.

A financial asset is classified as designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 39.

## 2) Available-for-sale (AFS) financial assets

AFS financial assets are nonderivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity financial assets or (c) financial assets at fair value through profit or loss.

AFS financial assets are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 39.

Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed or is determined to be impaired.

Cash dividends on AFS equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of investee's shares held.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit or loss.

## 3) Held-to-maturity financial assets

Held-to-maturity financial assets are nonderivative financial assets with fixed or determinable payments and a fixed maturity date that the Company has the positive intent and ability to hold to maturity.

After initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method less any impairment.

#### 4) Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including cash and cash equivalents, due from the central bank and call loans to other banks, receivables, debt instruments with no active market) are measured at amortized cost using the effective interest method less any impairment.

#### b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of financial assets, the estimated future cash flows of the asset have been affected. Objective evidence of impairment could include:

- Significant financial difficulty of the asset issuer and debtor;
- The financial assets becoming overdue;
- Probability that the debtor will enter into bankruptcy or undergo financial reorganization.

Financial assets carried at amortized cost (loans and receivables) that are individually assessed had no objective evidence of impairment are further assessed collectively for impairment. Objective evidence of impairment for a portfolio of receivables could include the Company's past difficulty in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on financial assets.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows with consideration to the collaterals and guarantees, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an AFS financial asset is considered impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss.

For AFS equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. For AFS debt instruments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. This impairment loss will not be reversed in subsequent periods.

Impairment loss on financial asset is recognized by reducing its carrying amount through the use of an allowance account. When financial assets are considered uncollectable, they are written off against the allowance account. Recoveries of amounts previously written off are credited to the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Under FSC guidelines, the Bank should classify credit assets as sound credit assets or unsound credit assets, with the unsound assets further categorized as special mention, substandard, with collectability highly doubtful and uncollectable, on the basis of the customers' financial position, valuation of collaterals and the length of time the principal repayments or interest payments have become overdue.

The Bank made 100%, 50%, 10%, 2% and 1% provisions for credits deemed uncollectable, with collectability highly doubtful, substandard, special mention and sound credit assets (excluding assets that represent claims against an ROC government agency), respectively, as minimum provisions. Furthermore, the FSC stipulated that banks should make at least 1.5% provisions each before December 31, 2015 and December 31, 2016 for sound credit assets in Mainland China (pertaining to short-term advance for trade finance) and loans for house purchases, renovations and constructions, respectively.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors.

c. Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received, receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Equity instruments

The Company classifies the debt and equity instruments issued either as financial liabilities or as equity in accordance with the substance of the contractual agreements and the definitions of a financial liability or an equity instrument.

Equity instruments issued by the Company are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

## Financial liabilities

### a. Subsequent measurement

Except for the cases stated below, all financial liabilities are measured at amortized cost using the effective interest method:

#### 1) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or designated as at FVTPL.

A financial liability is classified as designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 39.

#### 2) Financial guarantee contracts

Financial guarantee contracts issued by the Company are not designated as at FVTPL and are subsequently measured at the higher of (a) the amount of the obligation under the contract, as determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; or (b) the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with revenue recognition policies.

### b. Derecognition of financial liabilities

The Company derecognizes financial liabilities only when the Company's obligations are discharged or cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

## Derivatives

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the balance sheet date. The resulting gain or loss is recognized in profit or loss immediately. If the fair value of a derivative is a positive number, the derivative is recognized as an asset and if the fair value is a negative number, the derivative is recognized as a liability.

Derivatives embedded in nonderivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL.

## **Overdue Loans**

Under FSC guidelines, the Bank classifies loans and other credits (including accrued interest) that past due for at least six months as overdue loans.

Overdue loans (except other credits) are classified as discounts and loans, and the remaining are classified as other financial assets.

## **Securities Purchased/Sold Under Resell/Repurchase Agreements**

Securities purchased under resell agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resell agreements or interest incurred on repurchase agreements is recognized as interest revenue or interest expense over the life of each agreement.

## **Investment Properties**

Investment properties are properties owned specifically to generate profit through rental income and/or capital gains. Land for which the future purpose of use has not been decided is classified under investment properties.

Investment properties are initially recognized at cost (including transaction cost) and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. The Company calculates depreciation by the straight-line method.

Any gain or loss recognized on derecognition of the investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the investment property is derecognized.

## **Properties and Equipment**

Properties and equipment are initially recognized at cost and subsequently measured at costs less accumulated depreciation and accumulated impairment losses.

Land for self-use is not depreciated. Depreciation is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Any gain or loss recognized on the disposal or retirement of an item of property and equipment is the difference between the sales proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the asset is derecognized.

## **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### The Company as a lessor

Rental income from operating leases is recognized in revenues over the lease periods on a straight-line basis. Contingent rents arising under operating leases are recognized as income in the period in which they are incurred.

Lease incentives offered in the operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis over the lease term.

### The Company as a lessee

Lease payments under an operating lease are expensed on a straight-line basis over the lease period. Under operating lease, contingent rentals are recognized as expenses at current period.

Lease incentives received in the operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

## **Goodwill**

Goodwill (part of intangible assets) from business combination is recorded at acquisition cost and subsequently measured at cost less accumulated impairment.

For impairment test purposes, goodwill is allocated to each CGU that benefits from the synergy of a business combination.

In testing assets for impairment, the Company compares the carrying amounts of operating segments (CGUs with allocated goodwill) to their recoverable amounts on a yearly basis (or when impairment indicators exist). CGUs with allocated goodwill arising from the current year should be tested for impairment before the end of the year. When the recoverable amount of CGUs is below the carrying amount, an impairment loss should be recognized to reduce first the carrying amount of goodwill of the CGU and then the carrying amounts of other assets of the CGU proportionately. Any impairment loss should be directly recognized as loss in the current period, and subsequent reversal of impairment loss is not allowed.

On disposal of the relevant CGU, the amount attributable to goodwill is included in the determination of the gain or loss on disposal.

## **Intangible Assets Other Than Goodwill**

### Separate acquisition

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. At year-end, the Company examines its estimates of the asset useful lives, residual values, and amortization method, with the effect of any changes in estimate accounted for on a prospective basis. Unless the Company expects to dispose of an intangible asset before the end of its useful life, the residual value of an intangible asset with limited useful life is estimated to be zero. Effect of any changes in estimate accounted for on a prospective basis.

### Acquisition as part of a business combination

Intangible asset acquired through business combination is measured at its fair value on the acquisition date, and is recognized separately from goodwill. Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

### Derecognition

Gains or losses recognized on derecognition of an intangible asset is the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the asset is derecognized.

### **Impairment of Tangible and Intangible Assets Other Than Goodwill**

At the balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets (except goodwill) for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss. Corporate assets are allocated to the individual CGUs on a reasonable and consistent basis of allocation. The recoverable amount is the higher of fair value less selling costs or value in use.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. If asset impairment loss reverses, the increase in the carrying amount resulting from reversal is credited to earnings. However, loss reversal should not be more than the carrying amount (net of depreciation or amortization) had the impairment loss not been recognized.

### **Foreclosed Collaterals**

Foreclosed collaterals (part of other assets) are recorded at the fair value on recognition and recorded at the lower of cost or net fair value as of the balance sheet date. Net fair value falling below book value indicates impairment, and impairment loss should be recognized. If the net fair value recovers, the recovery of impairment loss is recognized as gain. For foreclosed collaterals that should have been disposed of in the statutory term, unless the disposal period is prolonged, an additional provision for losses should be made and impairment loss should be recognized, as required under a FSC directive.

### **Provisions**

Provision is the best estimate of the consideration required to settle a present obligation at the balance sheet date, taking into account the risks and uncertainties on the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that the settlement amount will be received and the amount of the receivable can be measured reliably.

### **Recognition of Revenue**

Interest revenue on loans is recorded on an accrual basis. Under the guidance of the FSC, no interest revenue is recognized on loans that are classified as overdue loans. The interest revenue on these loans is recognized upon collection of the loans and credits.

Service fees are recognized when a major part of the earnings process is completed and cash is collected.

Dividend income from investments is recognized when the stockholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Company and the amount of income can be measured reliably).

The points earned by customers under loyalty program are treated as multiple-element arrangements, in which consideration is allocated to the goods or services and the award credits based on fair value through the eyes of the customer. The consideration is not recognized in earnings at the original sales transactions but at the time when the points are redeemed and the Company's obligation is fulfilled.

## **Employee Benefits**

### Short-term employee benefits

Short-term and non-discounted employee benefits are recognized as expenses in the current period as services are rendered.

### Post-employment benefits

Payments to defined contribution post-employment benefit plans are recognized as an expense when employees have rendered services entitling them to the contributions.

Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit post-employment benefit plans are determined using the projected unit credit method. Service cost and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

### Preferential interest deposits for employees

The preferential interest deposit for entitled employees is for deposits within a certain amount. The preferential rates for employees' deposits in excess of market rate should be treated as employee benefit.

## **Share-based Payment**

The Company's employees subscribed for the reserved shares of E.SUN Financial Holding Company, Ltd., (ESFHC) in accordance with the Financial Holding Company Act, and the Company recognized the fair value of the stock options under salary expenses and under capital surplus for share-based payment on the grant date, i.e., the date when the Company and its employees made an agreement for the employees to subscribe for ESFHC's shares.

## **Taxation**

Income tax expense represents the sum of tax currently and deferred income tax.

### Current income tax

Income tax at a rate of 10% of unappropriated earnings is expensed in the year when the stockholders resolve to retain the earnings.

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

### Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and unused loss carryforward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. If the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit, the resulting deferred tax asset or liability is not recognized. In addition, a deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed each balance sheet date and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences based on the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### Current and deferred tax for the year

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively. Where current tax or deferred taxes arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

ESFHC and subsidiaries elected to file consolidated tax returns for periods starting in 2003. However, since the Bank applied the accounting treatment mentioned in the preceding paragraph to income tax, any distribution of cash payments and receipts among the consolidated group members is recorded as current tax assets or current tax liabilities.

### **Business Combination**

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized as expenses as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

Business combination involving entities under common control is not accounted for by acquisition method but accounted for at the carrying amounts of the entities. Prior period comparative information in the financial statements is restated as if a business combination involving entities under common control had already occurred in that period.

### **Government Grants**

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recognized as deferred income that is recognized in profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Company with no future related costs are recognized in profit or loss of the period in which they become receivable.

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described in Note 4, the Company's management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Unless stated in other notes, the following are the critical judgments, assumptions and estimation uncertainty that the Company's management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

a. Impairment losses on loans

The Company monthly assesses loans collectively. When determining whether an impairment loss should be recognized, the Company mainly seeks for observable evidence that indicates impairment. Objective evidence of impairment of a portfolio of loans and receivables could include the Company's past difficulty in collecting payments and an increase in the number of delayed payments, as well as observable changes in national or local economic conditions that correlate with defaults on loans and receivables. The management uses past loss experience on assets that have similar credit risk characteristics to estimate the expected future cash flows. The Company reviews the methods and assumptions of cash flow estimation regularly to eliminate the difference between expected and actual loss.

b. Impairment of goodwill

The assessment of impairment of goodwill requires the Company to estimate the value in use of the CGUs to which goodwill has been allocated. For calculating the value in use, management is required to estimate the future cash flows expected to arise from each CGU and the discount rate to be used in calculating present value. If the actual cash flow falls below expectation, an impairment loss might be incurred.

## 6. CASH AND CASH EQUIVALENTS

|                     | <b>December 31</b>   |                      |
|---------------------|----------------------|----------------------|
|                     | <b>2017</b>          | <b>2016</b>          |
| Cash on hand        | \$ 11,905,579        | \$ 11,441,836        |
| Checks for clearing | 10,495,503           | 9,731,186            |
| Due from banks      | 32,538,944           | 15,529,801           |
| Cash in transit     | <u>22,298</u>        | <u>11,521</u>        |
|                     | <u>\$ 54,962,324</u> | <u>\$ 36,714,344</u> |

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2017 and 2016 are shown in the consolidated statements of cash flows.

## 7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS

|                                                               | <b>December 31</b> |               |
|---------------------------------------------------------------|--------------------|---------------|
|                                                               | <b>2017</b>        | <b>2016</b>   |
| Deposit reserves - account A                                  | \$ 22,725,604      | \$ 16,177,847 |
| Deposit reserves - account B                                  | 38,287,417         | 36,116,280    |
| Reserves for deposits - foreign currency deposits             | 423,842            | 322,790       |
| Due from the Central Bank - other                             | 8,360,993          | 7,385,911     |
| Deposit in the Central Bank - deposits of government agencies | 6,284              | 7,507         |

(Continued)

|                                     | <b>December 31</b>   |                      |
|-------------------------------------|----------------------|----------------------|
|                                     | <b>2017</b>          | <b>2016</b>          |
| Call loans to banks                 | \$ 4,843,647         | \$ 2,129,228         |
| Banks overdrafts                    | -                    | 594,056              |
| Trade finance advance - interbank   | <u>1,492,400</u>     | <u>-</u>             |
|                                     | 76,140,187           | 62,733,619           |
| Less: Allowance for possible losses | <u>(60,144)</u>      | <u>(1,849)</u>       |
|                                     | <u>\$ 76,080,043</u> | <u>\$ 62,731,770</u> |
|                                     |                      | (Concluded)          |

As required by law, the deposit reserves are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts. The deposit reserves - account B is subject to withdrawal restrictions, but deposit reserves - account A and foreign-currency deposit reserves may be withdrawn anytime.

Under the “Directions for a National Treasury Agent Bank Acting on Behalf of the Central Bank of the Republic of China Handling National Treasury Matters,” the Bank redeposits 60% of the receipts of deposit of government agencies in the Central Bank of the Republic of China, and the amount is subject to withdrawal restrictions.

## 8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                                                            | <b>December 31</b>    |                       |
|----------------------------------------------------------------------------|-----------------------|-----------------------|
|                                                                            | <b>2017</b>           | <b>2016</b>           |
| <u>Held-for-trading financial assets</u>                                   |                       |                       |
| Negotiable certificates of deposits                                        | \$ 237,642,004        | \$ 232,198,142        |
| Commercial paper                                                           | 54,287,282            | 20,474,875            |
| Currency swap contracts                                                    | 3,038,019             | 4,157,975             |
| Interest rate swap contracts                                               | 1,098,268             | 1,094,587             |
| Currency option contracts                                                  | 630,142               | 3,145,626             |
| Forward contracts                                                          | 443,540               | 630,755               |
| Listed stocks                                                              | 267,693               | 331,154               |
| Bank debentures                                                            | 88,659                | -                     |
| Futures exchange margins                                                   | 35,563                | 57,132                |
| Non-deliverable forward contracts                                          | 17,135                | 4,765                 |
| Metal commodity swap contracts                                             | 11,441                | 6,045                 |
| Cross-currency swap contracts                                              | 148                   | 3,253                 |
| Treasury bills                                                             | <u>-</u>              | <u>499,064</u>        |
|                                                                            | <u>297,559,894</u>    | <u>262,603,373</u>    |
| <u>Financial assets designated as at fair value through profit or loss</u> |                       |                       |
| Corporate bonds                                                            | 59,110,659            | 59,813,073            |
| Bank debentures                                                            | 49,740,994            | 42,858,597            |
| Overseas government bonds                                                  | <u>1,558,914</u>      | <u>802,094</u>        |
|                                                                            | <u>110,410,567</u>    | <u>103,473,764</u>    |
|                                                                            | <u>\$ 407,970,461</u> | <u>\$ 366,077,137</u> |
|                                                                            |                       | (Continued)           |

|                                                                                 | <b>December 31</b>   |                                     |
|---------------------------------------------------------------------------------|----------------------|-------------------------------------|
|                                                                                 | <b>2017</b>          | <b>2016</b>                         |
| <u>Held-for-trading financial liabilities</u>                                   |                      |                                     |
| Currency swap contracts                                                         | \$ 3,125,175         | \$ 3,541,819                        |
| Interest rate swap contracts                                                    | 926,432              | 1,767,733                           |
| Currency option contracts                                                       | 867,889              | 2,709,738                           |
| Forward contracts                                                               | 296,093              | 631,133                             |
| Cross-currency swap contracts                                                   | 63,193               | 8,630                               |
| Non-deliverable forward contracts                                               | 16,793               | 4,222                               |
| Metal commodity swap contracts                                                  | 4,854                | 2,751                               |
|                                                                                 | <u>5,300,429</u>     | <u>8,666,026</u>                    |
| <u>Financial liabilities designated as at fair value through profit or loss</u> |                      |                                     |
| Bank debentures (Note 23)                                                       | 37,773,748           | 33,111,455                          |
| Structured products                                                             | 285,670              | 314,222                             |
|                                                                                 | <u>38,059,418</u>    | <u>33,425,677</u>                   |
|                                                                                 | <u>\$ 43,359,847</u> | <u>\$ 42,091,703</u><br>(Concluded) |

The Company engages in derivative transactions mainly to accommodate customers' needs, manage its exposure positions and hedge against its exchange rate and interest rate exposures as well as its credit risks as a bondholder.

The contract (nominal) amounts of derivative transactions by the Company as of December 31, 2017 and 2016 were as follows:

|                                   | <b>December 31</b> |                |
|-----------------------------------|--------------------|----------------|
|                                   | <b>2017</b>        | <b>2016</b>    |
| Currency swap contracts           | \$ 471,503,214     | \$ 308,819,971 |
| Currency option contracts         | 93,223,864         | 294,641,208    |
| Interest rate swap contracts      | 59,141,164         | 61,584,546     |
| Forward contracts                 | 26,408,762         | 29,544,383     |
| Cross-currency swap contracts     | 910,525            | 1,613,950      |
| Non-deliverable forward contracts | 802,163            | 267,388        |
| Metal commodity swap contracts    | 244,232            | 182,903        |

The open positions of futures transactions of the Company as of December 31, 2017 and 2016, were as follows:

| Items             | Products | <b>December 31, 2017</b> |                                         |                  |                    |
|-------------------|----------|--------------------------|-----------------------------------------|------------------|--------------------|
|                   |          | <b>Open Position</b>     | <b>Contract Amounts or Premium Paid</b> |                  |                    |
|                   |          | <b>Buy/Sell</b>          | <b>Number of Contracts</b>              | <b>(Charged)</b> | <b>Fair Values</b> |
| Futures contracts | MCU      | Sell                     | 14                                      | \$ 72,568        | \$ 76,036          |
|                   | MNI      | Buy                      | 12                                      | 24,903           | 26,507             |
|                   | MNI      | Sell                     | 13                                      | 27,467           | 28,751             |

|                   |                 | <b>December 31, 2016</b> |                                |                                                      |                    |
|-------------------|-----------------|--------------------------|--------------------------------|------------------------------------------------------|--------------------|
| <b>Items</b>      | <b>Products</b> | <b>Open Position</b>     |                                | <b>Contract</b>                                      | <b>Fair Values</b> |
|                   |                 | <b>Buy/Sell</b>          | <b>Number of<br/>Contracts</b> | <b>Amounts or<br/>Premium<br/>Paid<br/>(Charged)</b> |                    |
| Futures contracts | MCU             | Buy                      | 15                             | \$ 68,647                                            | \$ 66,978          |
|                   | MCU             | Sell                     | 31                             | 135,688                                              | 138,381            |
|                   | MNI             | Sell                     | 36                             | 73,652                                               | 69,695             |

#### 9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

Securities acquired for \$173,470 thousand under resell agreements as of December 31, 2016, will subsequently be sold for \$174,486 thousand.

#### 10. RECEIVABLES, NET

|                                               | <b>December 31</b>   |                      |
|-----------------------------------------------|----------------------|----------------------|
|                                               | <b>2017</b>          | <b>2016</b>          |
| Receivables on credit cards                   | \$ 60,787,798        | \$ 55,735,074        |
| Accounts receivable factored without recourse | 15,036,201           | 12,186,866           |
| Accrued interest                              | 3,716,759            | 3,589,264            |
| Accounts receivable                           | 2,221,198            | 3,583,700            |
| Acceptances                                   | 2,051,400            | 1,467,246            |
| Others                                        | <u>1,340,683</u>     | <u>1,282,868</u>     |
|                                               | 85,154,039           | 77,845,018           |
| Less: Allowance for possible losses           | <u>(2,024,181)</u>   | <u>(1,852,786)</u>   |
|                                               | <u>\$ 83,129,858</u> | <u>\$ 75,992,232</u> |

The allowances for possible losses on receivables assessed for impairment as of December 31, 2017 and 2016, were as follows:

| <b>Items</b>                                   |                                            | <b>December 31, 2017</b> |                                          | <b>December 31, 2016</b> |                                          |
|------------------------------------------------|--------------------------------------------|--------------------------|------------------------------------------|--------------------------|------------------------------------------|
|                                                |                                            | <b>Receivables</b>       | <b>Allowance for<br/>Possible Losses</b> | <b>Receivables</b>       | <b>Allowance for<br/>Possible Losses</b> |
| With objective<br>evidence of<br>impairment    | Assessment for<br>individual<br>impairment | \$ 429,195               | \$ 88,385                                | \$ 494,613               | \$ 109,790                               |
|                                                | Assessment for<br>collective<br>impairment | 2,092,360                | 628,509                                  | 1,943,729                | 598,314                                  |
| With no objective<br>evidence of<br>impairment | Assessment for<br>collective<br>impairment | 80,178,126               | 1,307,287                                | 73,197,241               | 1,144,682                                |
| <b>Total</b>                                   |                                            | 82,699,681               | 2,024,181                                | 75,635,583               | 1,852,786                                |

The changes in allowance for possible losses are summarized below:

|                                                    | <b>For the Year Ended December 31</b> |                     |
|----------------------------------------------------|---------------------------------------|---------------------|
|                                                    | <b>2017</b>                           | <b>2016</b>         |
| Balance, January 1                                 | \$ 1,852,786                          | \$ 1,832,168        |
| Provision for possible losses                      | 461,099                               | 348,234             |
| Write-offs                                         | (728,890)                             | (839,389)           |
| Recovery of written-off receivables                | 482,984                               | 514,875             |
| Effects of exchange rate changes and other changes | <u>(43,798)</u>                       | <u>(3,102)</u>      |
| Balance, December 31                               | <u>\$ 2,024,181</u>                   | <u>\$ 1,852,786</u> |

## 11. DISCOUNTS AND LOANS, NET

|                                         | <b>December 31</b>      |                         |
|-----------------------------------------|-------------------------|-------------------------|
|                                         | <b>2017</b>             | <b>2016</b>             |
| Loans                                   |                         |                         |
| Short-term                              | \$ 288,611,551          | \$ 280,567,425          |
| Medium-term                             | 300,039,994             | 277,467,837             |
| Long-term                               | 632,517,129             | 569,144,913             |
| Overdue loans                           | 2,433,082               | 2,901,553               |
| Bills negotiated and discounts          | <u>2,991,996</u>        | <u>2,974,757</u>        |
|                                         | 1,226,593,752           | 1,133,056,485           |
| Less: Allowance for possible losses     | (15,366,436)            | (14,730,154)            |
| Less: Adjustment of premium or discount | <u>(156,041)</u>        | <u>(177,662)</u>        |
|                                         | <u>\$ 1,211,071,275</u> | <u>\$ 1,118,148,669</u> |

As of December 31, 2017 and 2016, the loan and credit balances of the Bank, for which the accrual of interest revenues was discontinued, amounted to \$2,100,884 thousand and \$1,394,641 thousand, respectively. The unrecognized interest revenues on these loans and credits of the Bank were \$35,211 thousand and \$22,947 thousand for the years ended December 31, 2017 and 2016, respectively.

The allowances for possible losses on discounts and loans assessed for impairment as of December 31, 2017 and 2016 were as follows:

| Items                                    |                                      | December 31, 2017   |                               | December 31, 2016   |                               |
|------------------------------------------|--------------------------------------|---------------------|-------------------------------|---------------------|-------------------------------|
|                                          |                                      | Discounts and Loans | Allowance for Possible Losses | Discounts and Loans | Allowance for Possible Losses |
| With objective evidence of impairment    | Assessment for individual impairment | \$ 3,326,059        | \$ 1,153,393                  | \$ 2,491,806        | \$ 940,790                    |
|                                          | Assessment for collective impairment | 4,677,777           | 1,668,516                     | 6,011,972           | 2,346,063                     |
| With no objective evidence of impairment | Assessment for collective impairment | 1,218,589,916       | 12,544,527                    | 1,124,552,707       | 11,443,301                    |
| Total                                    |                                      | 1,226,593,752       | 15,366,436                    | 1,133,056,485       | 14,730,154                    |

The changes in allowance for possible losses are summarized below:

|                                                    | <b>For the Year Ended December 31</b> |                      |
|----------------------------------------------------|---------------------------------------|----------------------|
|                                                    | <b>2017</b>                           | <b>2016</b>          |
| Balance, January 1                                 | \$ 14,730,154                         | \$ 12,852,020        |
| Provision for possible losses                      | 3,348,067                             | 3,153,096            |
| Write-offs                                         | (3,304,151)                           | (1,840,187)          |
| Recovery of written-off credits                    | 678,507                               | 608,561              |
| Effects of exchange rate changes and other changes | <u>(86,141)</u>                       | <u>(43,336)</u>      |
| Balance, December 31                               | <u>\$ 15,366,436</u>                  | <u>\$ 14,730,154</u> |

The bad-debt expenses and provision for losses on guarantees for the years ended December 31, 2017 and 2016 were as follows:

|                                                                                    | <b>For the Year Ended December 31</b> |                     |
|------------------------------------------------------------------------------------|---------------------------------------|---------------------|
|                                                                                    | <b>2017</b>                           | <b>2016</b>         |
| Provision (reversal of provision) for possible losses on call loans to other banks | \$ 53,655                             | \$ (2,544)          |
| Provision for possible losses on receivables                                       | 461,099                               | 348,234             |
| Provision for possible losses on discounts and loans                               | 3,348,067                             | 3,153,096           |
| Provision (reversal of provision) for possible losses on remittance                | (43)                                  | 8                   |
| Provision (reversal of provision) for possible losses on guarantees                | <u>6,163</u>                          | <u>(36,730)</u>     |
|                                                                                    | <u>\$ 3,868,941</u>                   | <u>\$ 3,462,064</u> |

The FSC stipulated that banks should make at least 1.5% provisions each for sound credit assets in Mainland China (pertaining to short-term advance for trade finance) and loans for house purchases, renovations and constructions. Thus, the Bank made this required minimum provision in 2015. As of December 31, 2017 and 2016, the Bank was in compliance with the FSC's provision requirement for both type of credit assets.

## 12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

|                   | <b>December 31</b>    |                       |
|-------------------|-----------------------|-----------------------|
|                   | <b>2017</b>           | <b>2016</b>           |
| Bank debentures   | \$ 84,110,009         | \$ 67,241,672         |
| Government bonds  | 58,640,004            | 43,455,005            |
| Corporate bonds   | 20,110,812            | 23,123,097            |
| Listed stocks     | 6,089,816             | 4,500,377             |
| Overseas bonds    | 1,253,997             | 928,816               |
| Financial product | <u>-</u>              | <u>1,850,316</u>      |
|                   | <u>\$ 170,204,638</u> | <u>\$ 141,099,283</u> |

As of December 31, 2017 and 2016, the available-for-sale financial assets, which amounted to \$12,773,433 thousand and \$9,190,252 thousand, respectively, had been sold under repurchase agreements.

### 13. HELD-TO-MATURITY FINANCIAL ASSETS, NET

|                                   | <u>December 31</u>  |                     |
|-----------------------------------|---------------------|---------------------|
|                                   | <u>2017</u>         | <u>2016</u>         |
| Overseas bonds                    | \$ 1,871,918        | \$ 2,072,989        |
| Bank debentures                   | 1,132,275           | 1,141,265           |
| Overseas certificates of deposits | 74,620              | 80,697              |
| Corporate bonds                   | -                   | 271,596             |
| Government bonds                  | -                   | 50,413              |
|                                   | <u>\$ 3,078,813</u> | <u>\$ 3,616,960</u> |

In 2015, the Company disposed of some debt instruments because of the severe deterioration of debtors' credits and other concerns. However, the amount disposed of was only a small portion of the held-to-maturity financial assets, and the Company had no intention to reclassify the rest of these investments. As of December 31, 2017 and 2016, the accumulated disposal amounts from the past three years were both \$21,067 thousand; the accumulated realized losses on disposal were both \$2,154 thousand in each year; the accumulated disposal amounts were 0.68% and 0.58% of held-to-maturity financial assets, respectively.

### 14. OTHER FINANCIAL ASSETS, NET

|                                             | <u>December 31</u>  |                      |
|---------------------------------------------|---------------------|----------------------|
|                                             | <u>2017</u>         | <u>2016</u>          |
| Due from banks                              | \$ 8,291,918        | \$ 25,471,820        |
| Debt instruments with no active market, net | 596,960             | 1,291,160            |
| Financial assets carried at cost, net       | 537,515             | 537,881              |
| Others                                      | -                   | 760                  |
|                                             | <u>\$ 9,426,393</u> | <u>\$ 27,301,621</u> |

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost less accumulated impairment.

Debt instruments with no active market were as follows:

|                 | <u>December 31</u> |                     |
|-----------------|--------------------|---------------------|
|                 | <u>2017</u>        | <u>2016</u>         |
| Corporate bonds | \$ -               | \$ 645,580          |
| Bank debentures | <u>596,960</u>     | <u>645,580</u>      |
|                 | <u>\$ 596,960</u>  | <u>\$ 1,291,160</u> |

Due from banks were deposits for operating reserve and time deposits with maturities longer than three months.

## 15. PROPERTIES AND EQUIPMENT, NET

|                                          | December 31          |                      |
|------------------------------------------|----------------------|----------------------|
|                                          | 2017                 | 2016                 |
| <u>Carrying amount</u>                   |                      |                      |
| Land                                     | \$ 13,987,410        | \$ 13,278,624        |
| Buildings                                | 9,507,383            | 7,115,511            |
| Computers                                | 1,975,247            | 1,865,455            |
| Transportation equipment                 | 324,236              | 232,305              |
| Miscellaneous equipment                  | 1,112,706            | 1,051,075            |
| Prepayments for properties and equipment | <u>651,632</u>       | <u>2,242,411</u>     |
|                                          | <u>\$ 27,558,614</u> | <u>\$ 25,785,381</u> |

|                                                    | Land                 | Buildings            | Computers           | Transportation<br>Equipment | Miscellaneous<br>Equipment | Prepayments         | Total                |
|----------------------------------------------------|----------------------|----------------------|---------------------|-----------------------------|----------------------------|---------------------|----------------------|
| <u>Cost</u>                                        |                      |                      |                     |                             |                            |                     |                      |
| Balance, January 1, 2017                           | \$ 13,278,624        | \$ 10,409,031        | \$ 4,301,117        | \$ 709,785                  | \$ 2,874,095               | \$ 2,242,411        | \$ 33,815,063        |
| Addition                                           | 640,834              | 1,129,414            | 547,633             | 133,230                     | 304,607                    | 488,536             | 3,244,254            |
| Disposal                                           | -                    | -                    | (46,622)            | (41,456)                    | (155,521)                  | -                   | (243,599)            |
| Net exchange difference                            | (21,628)             | (17,788)             | (9,829)             | (4,714)                     | (25,830)                   | (19,418)            | (99,207)             |
| Reclassification and others                        | <u>89,580</u>        | <u>1,665,408</u>     | <u>24,855</u>       | <u>12,968</u>               | <u>69,690</u>              | <u>(2,059,897)</u>  | <u>(197,396)</u>     |
| Balance, December 31, 2017                         | <u>\$ 13,987,410</u> | <u>\$ 13,186,065</u> | <u>\$ 4,817,154</u> | <u>\$ 809,813</u>           | <u>\$ 3,067,041</u>        | <u>\$ 651,632</u>   | <u>\$ 36,519,115</u> |
| Balance, January 1, 2016                           | \$ 12,926,039        | \$ 8,314,671         | \$ 3,863,520        | \$ 662,451                  | \$ 2,583,598               | \$ 5,272,606        | \$ 33,622,885        |
| Acquisition through business combination (Note 45) | -                    | -                    | 6,661               | -                           | 9,164                      | -                   | 15,825               |
| Addition                                           | 83,184               | 693,237              | 799,645             | 68,942                      | 275,361                    | 711,572             | 2,631,941            |
| Disposal                                           | -                    | (6,720)              | (366,146)           | (23,016)                    | (46,643)                   | -                   | (442,525)            |
| Net exchange difference                            | (5,525)              | (1,488)              | (13,091)            | (2,052)                     | (19,204)                   | (101,160)           | (142,520)            |
| Reclassification and others                        | <u>274,926</u>       | <u>1,409,331</u>     | <u>10,528</u>       | <u>3,460</u>                | <u>71,819</u>              | <u>(3,640,607)</u>  | <u>(1,870,543)</u>   |
| Balance, December 31, 2016                         | <u>\$ 13,278,624</u> | <u>\$ 10,409,031</u> | <u>\$ 4,301,117</u> | <u>\$ 709,785</u>           | <u>\$ 2,874,095</u>        | <u>\$ 2,242,411</u> | <u>\$ 33,815,063</u> |

|                                                    | Land        | Buildings             | Computers             | Transportation<br>Equipment | Miscellaneous<br>Equipment | Total                 |
|----------------------------------------------------|-------------|-----------------------|-----------------------|-----------------------------|----------------------------|-----------------------|
| <u>Accumulated depreciation and impairment</u>     |             |                       |                       |                             |                            |                       |
| Balance, January 1, 2017                           | \$ -        | \$ (3,293,520)        | \$ (2,435,662)        | \$ (477,480)                | \$ (1,823,020)             | \$ (8,029,682)        |
| Disposal                                           | -           | -                     | 46,605                | 41,455                      | 123,669                    | 211,729               |
| Depreciation expenses                              | -           | (388,148)             | (458,596)             | (52,667)                    | (263,683)                  | (1,163,094)           |
| Net exchange difference                            | -           | 2,029                 | 4,946                 | 3,115                       | 8,699                      | 18,789                |
| Reclassification and others                        | <u>-</u>    | <u>957</u>            | <u>800</u>            | <u>-</u>                    | <u>-</u>                   | <u>1,757</u>          |
| Balance, December 31, 2017                         | <u>\$ -</u> | <u>\$ (3,678,682)</u> | <u>\$ (2,841,907)</u> | <u>\$ (485,577)</u>         | <u>\$ (1,954,335)</u>      | <u>\$ (8,960,501)</u> |
| Balance, January 1, 2016                           | \$ -        | \$ (2,989,637)        | \$ (2,425,093)        | \$ (454,005)                | \$ (1,597,804)             | \$ (7,466,539)        |
| Acquisition through business combination (Note 45) | -           | -                     | (6,116)               | -                           | (7,681)                    | (13,797)              |
| Disposal                                           | -           | 306                   | 364,976               | 22,967                      | 45,662                     | 433,911               |
| Depreciation expenses                              | -           | (299,030)             | (372,557)             | (47,321)                    | (270,155)                  | (989,063)             |
| Net exchange difference                            | -           | 389                   | 3,128                 | 1,043                       | 6,958                      | 11,518                |
| Reclassification and others                        | <u>-</u>    | <u>(5,548)</u>        | <u>-</u>              | <u>(164)</u>                | <u>-</u>                   | <u>(5,712)</u>        |
| Balance, December 31, 2016                         | <u>\$ -</u> | <u>\$ (3,293,520)</u> | <u>\$ (2,435,662)</u> | <u>\$ (477,480)</u>         | <u>\$ (1,823,020)</u>      | <u>\$ (8,029,682)</u> |

Depreciation is calculated by the straight-line method over service lives estimated as follows:

|                                  |                 |
|----------------------------------|-----------------|
| Buildings                        |                 |
| Main buildings                   | 20 to 50 years  |
| Equipment installed in buildings | 10 to 15 years  |
| Computers                        | 3 to 8 years    |
| Transportation equipment         | 4 to 10 years   |
| Miscellaneous equipment          | 1.5 to 20 years |

## 16. INVESTMENT PROPERTIES, NET

|                                                | <u>December 31</u>  |                     |                     |
|------------------------------------------------|---------------------|---------------------|---------------------|
|                                                | <u>2017</u>         | <u>2016</u>         |                     |
| Land                                           | \$ 342,425          | \$ 327,887          |                     |
| Buildings                                      | <u>1,894,564</u>    | <u>1,967,901</u>    |                     |
|                                                | <u>\$ 2,236,989</u> | <u>\$ 2,295,788</u> |                     |
|                                                | <b>Land</b>         | <b>Buildings</b>    | <b>Total</b>        |
| <u>Cost</u>                                    |                     |                     |                     |
| Balance, January 1, 2017                       | \$ 327,898          | \$ 2,004,353        | \$ 2,332,251        |
| Net exchange difference                        | (1,553)             | (17,809)            | (19,362)            |
| Reclassification                               | <u>16,080</u>       | <u>(1,694)</u>      | <u>14,386</u>       |
| Balance, December 31, 2017                     | <u>\$ 342,425</u>   | <u>\$ 1,984,850</u> | <u>\$ 2,327,275</u> |
| Balance, January 1, 2016                       | \$ 603,220          | \$ 138,954          | \$ 742,174          |
| Addition                                       | -                   | 56,613              | 56,613              |
| Net exchange difference                        | (396)               | (149,081)           | (149,477)           |
| Reclassification                               | <u>(274,926)</u>    | <u>1,957,867</u>    | <u>1,682,941</u>    |
| Balance, December 31, 2016                     | <u>\$ 327,898</u>   | <u>\$ 2,004,353</u> | <u>\$ 2,332,251</u> |
| <u>Accumulated depreciation and impairment</u> |                     |                     |                     |
| Balance, January 1, 2017                       | \$ (11)             | \$ (36,452)         | \$ (36,463)         |
| Depreciation expenses                          | -                   | (52,594)            | (52,594)            |
| Reversal of impairment losses                  | 11                  | 334                 | 345                 |
| Net exchange difference                        | -                   | (617)               | (617)               |
| Reclassification                               | <u>-</u>            | <u>(957)</u>        | <u>(957)</u>        |
| Balance, December 31, 2017                     | <u>\$ -</u>         | <u>\$ (90,286)</u>  | <u>\$ (90,286)</u>  |
| Balance, January 1, 2016                       | \$ (7)              | \$ (25,056)         | \$ (25,063)         |
| Depreciation expenses                          | -                   | (17,461)            | (17,461)            |
| Impairment losses                              | (4)                 | (121)               | (125)               |
| Net exchange difference                        | -                   | 638                 | 638                 |
| Reclassification                               | <u>-</u>            | <u>5,548</u>        | <u>5,548</u>        |
| Balance, December 31, 2016                     | <u>\$ (11)</u>      | <u>\$ (36,452)</u>  | <u>\$ (36,463)</u>  |

Investment properties (except for land) are depreciated through 20 to 50 years on a straight-line basis.

As of December 31, 2017 and 2016, the fair values of investment properties were \$3,360,214 thousand and \$3,356,576 thousand, respectively. The fair values were based on the valuation of discounted cash flow analysis method from external real estate appraiser joint firm (that were not the Company's related parties), and the comparison of price of the comparable property from external appraisal company and the Company's appraisal center.

The revenues generated from the investment properties are summarized as follows:

|                                                                                       | <b>For the Year Ended December 31</b> |                  |
|---------------------------------------------------------------------------------------|---------------------------------------|------------------|
|                                                                                       | <b>2017</b>                           | <b>2016</b>      |
| Rental income from investment properties                                              | \$ 63,786                             | \$ 20,234        |
| Direct operating expenses of investment properties that generate rental income        | (50,129)                              | (4,705)          |
| Direct operating expenses of investment properties that do not generate rental income | <u>(15,314)</u>                       | <u>(1,424)</u>   |
|                                                                                       | <u>\$ (1,657)</u>                     | <u>\$ 14,105</u> |

## 17. INTANGIBLE ASSETS, NET

|                       | <b>December 31</b>  |                     |
|-----------------------|---------------------|---------------------|
|                       | <b>2017</b>         | <b>2016</b>         |
| Goodwill              | \$ 4,469,844        | \$ 4,518,619        |
| Computer software     | 1,054,890           | 918,975             |
| Banking licenses      | 476,135             | 514,915             |
| Core deposits         | 63,151              | 126,950             |
| Developed technology  | 49,255              | 54,727              |
| Customer relationship | <u>25,441</u>       | <u>28,149</u>       |
|                       | <u>\$ 6,138,716</u> | <u>\$ 6,162,335</u> |

|                                                    | <b>Goodwill</b>     | <b>Computer Software</b> | <b>Banking Licenses</b> | <b>Core Deposits</b> | <b>Developed Technology</b> | <b>Customer Relationship</b> | <b>Total</b>        |
|----------------------------------------------------|---------------------|--------------------------|-------------------------|----------------------|-----------------------------|------------------------------|---------------------|
| Balance, January 1, 2017                           | \$ 4,518,619        | \$ 918,975               | \$ 514,915              | \$ 126,950           | \$ 54,727                   | \$ 28,149                    | \$ 6,162,335        |
| Separate acquisition                               | -                   | 453,114                  | -                       | -                    | -                           | -                            | 453,114             |
| Amortization expenses                              | -                   | (495,270)                | -                       | (57,531)             | (5,472)                     | (2,708)                      | (560,981)           |
| Reclassification                                   | -                   | 182,210                  | -                       | -                    | -                           | -                            | 182,210             |
| Net exchange difference                            | <u>(48,775)</u>     | <u>(4,139)</u>           | <u>(38,780)</u>         | <u>(6,268)</u>       | <u>-</u>                    | <u>-</u>                     | <u>(97,962)</u>     |
| Balance, December 31, 2017                         | <u>\$ 4,469,844</u> | <u>\$ 1,054,890</u>      | <u>\$ 476,135</u>       | <u>\$ 63,151</u>     | <u>\$ 49,255</u>            | <u>\$ 25,441</u>             | <u>\$ 6,138,716</u> |
| Balance, January 1, 2016                           | \$ 4,465,432        | \$ 693,149               | \$ 524,821              | \$ 190,813           | \$ -                        | \$ 6,957                     | \$ 5,881,172        |
| Acquisition through business combination (Note 45) | 65,646              | 467                      | -                       | -                    | 60,200                      | 23,900                       | 150,213             |
| Separate acquisition                               | -                   | 426,116                  | -                       | -                    | -                           | -                            | 426,116             |
| Amortization expenses                              | -                   | (372,990)                | -                       | (60,900)             | (5,473)                     | (2,708)                      | (442,071)           |
| Reclassification and others                        | -                   | 173,266                  | -                       | -                    | -                           | -                            | 173,266             |
| Net exchange difference                            | <u>(12,459)</u>     | <u>(1,033)</u>           | <u>(9,906)</u>          | <u>(2,963)</u>       | <u>-</u>                    | <u>-</u>                     | <u>(26,361)</u>     |
| Balance, December 31, 2016                         | <u>\$ 4,518,619</u> | <u>\$ 918,975</u>        | <u>\$ 514,915</u>       | <u>\$ 126,950</u>    | <u>\$ 54,727</u>            | <u>\$ 28,149</u>             | <u>\$ 6,162,335</u> |

The above intangible assets (except goodwill) except useful life of license of the Company can not be certified and further amortized, the rest are with limited useful lives are amortized on a straight-line basis by the useful lives as follows:

|                       |                |
|-----------------------|----------------|
| Computer software     | 3 to 10 years  |
| Core deposits         | 5 to 16 years  |
| Developed technology  | 11 years       |
| Customer relationship | 11 to 17 years |

In testing assets for impairment, the Company uses as recoverable amounts (a) value in use for an operating segment defined as a CGU and (b) net fair value for an investment property. Goodwill on the acquisition of UCB (the subsidiary), BankPro (the subsidiary), the Kaohsiung Business Bank Co., Ltd., Chu Nan Credit-Cooperative Association and Chiayi The Fourth Credit Cooperative was allocated to operating segments (CGUs with allocated goodwill). The Company estimates the next five years' cash flows of a CGU by taking into consideration the actual performance of each CGU, business cycle, etc. under the going-concern assumption. The discounted present value of cash flows is used to determine the value in use of each CGU. The discount rates for future cash flows of CGUs were determined using the capital asset pricing model (CAPM). The testing for asset impairment showed that no impairment losses had been incurred.

#### 18. OTHER ASSETS, NET

|                          | <b>December 31</b>  |                     |
|--------------------------|---------------------|---------------------|
|                          | <b>2017</b>         | <b>2016</b>         |
| Refundable deposits, net | \$ 3,216,828        | \$ 3,204,423        |
| Prepaid expenses         | 267,473             | 358,483             |
| Others                   | <u>62,940</u>       | <u>45,789</u>       |
|                          | <u>\$ 3,547,241</u> | <u>\$ 3,608,695</u> |

#### 19. DUE TO THE CENTRAL BANK AND OTHER BANKS

|                                       | <b>December 31</b>   |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | <b>2017</b>          | <b>2016</b>          |
| Call loans from banks                 | \$ 59,546,987        | \$ 46,277,361        |
| Deposits from Chunghwa Post Co., Ltd. | 2,972,032            | 3,209,433            |
| Due to banks                          | 1,929,380            | 1,081,042            |
| Call loans from the Central Bank      | 1,790,880            | 1,613,950            |
| Banks overdrafts                      | 387,339              | 304,446              |
| Due to the Central Bank               | <u>25,597</u>        | <u>29,774</u>        |
|                                       | <u>\$ 66,652,215</u> | <u>\$ 52,516,006</u> |

#### 20. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold for \$12,200,468 thousand and \$8,881,723 thousand under repurchase agreements as of December 31, 2017 and 2016, respectively, would subsequently be purchased for \$12,243,835 thousand and \$8,912,263 thousand, respectively.

## 21. PAYABLES

|                           | <u>December 31</u>   |                      |
|---------------------------|----------------------|----------------------|
|                           | <u>2017</u>          | <u>2016</u>          |
| Checks for clearing       | \$ 10,495,503        | \$ 9,731,186         |
| Accrued expenses          | 3,827,710            | 3,447,687            |
| Accrued interest          | 2,393,252            | 1,928,642            |
| Acceptances               | 2,074,754            | 1,459,995            |
| Factored accounts payable | 1,981,765            | 2,553,922            |
| Accounts payable          | 1,354,121            | 1,381,640            |
| Collections payable       | 608,050              | 556,620              |
| Payable on credit cards   | 512,962              | 554,322              |
| Tax payable               | 304,187              | 327,945              |
| Others                    | <u>2,854,690</u>     | <u>1,696,279</u>     |
|                           | <u>\$ 26,406,994</u> | <u>\$ 23,638,238</u> |

## 22. DEPOSITS AND REMITTANCES

|                                     | <u>December 31</u>      |                         |
|-------------------------------------|-------------------------|-------------------------|
|                                     | <u>2017</u>             | <u>2016</u>             |
| Deposits                            |                         |                         |
| Checking                            | \$ 15,902,709           | \$ 15,701,871           |
| Demand                              | 467,668,455             | 435,387,485             |
| Savings - demand                    | 488,482,280             | 465,727,536             |
| Time                                | 458,858,749             | 363,479,149             |
| Negotiable certificates of deposits | 1,856,070               | 6,981,600               |
| Savings - time                      | 269,859,324             | 262,825,365             |
| Treasury deposits                   | 9,444,465               | 8,753,254               |
| Remittances                         | <u>1,103,300</u>        | <u>694,787</u>          |
|                                     | <u>\$ 1,713,175,352</u> | <u>\$ 1,559,551,047</u> |

## 23. BANK DEBENTURES

Details of bank debentures issued by the Bank were as follows:

|                                                                                                                                              | <u>December 31</u> |              |
|----------------------------------------------------------------------------------------------------------------------------------------------|--------------------|--------------|
|                                                                                                                                              | <u>2017</u>        | <u>2016</u>  |
| Subordinated bonds issued on May 28, 2010; 2.20% interest payable annually; principal repayable on maturity (7 years after the issue date).  | \$ -               | \$ 3,000,000 |
| Subordinated bonds issued on July 13, 2010; 2.20% interest payable annually; principal repayable on maturity (7 years after the issue date). | -                  | 2,500,000    |
| Subordinated bonds issued on May 24, 2011; 1.73% interest payable annually; principal repayable on maturity (7 years after the issue date).  | 2,100,000          | 2,100,000    |

(Continued)

|                                                                                                                                                                                                                                                                                                     | <b>December 31</b>   |                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------------------|
|                                                                                                                                                                                                                                                                                                     | <b>2017</b>          | <b>2016</b>                         |
| Subordinated bonds issued on October 28, 2011; 1.80% interest payable annually; principal repayable on maturity (7 years after the issue date).                                                                                                                                                     | \$ 2,900,000         | \$ 2,900,000                        |
| Subordinated bonds issued on April 27, 2012; 1.58% interest payable annually; principal repayable on maturity (7 years after the issue date).                                                                                                                                                       | 2,280,000            | 2,280,000                           |
| Subordinated bonds issued on June 28, 2012; 1.68% interest payable annually; principal repayable on maturity (10 years after the issue date).                                                                                                                                                       | 2,720,000            | 2,720,000                           |
| Two types of subordinated bonds issued on August 27, 2012; interest rate at (a) 1.50% for type A bond and (b) 1.62% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).    | 8,000,000            | 8,000,000                           |
| Two types of subordinated bonds issued on May 24, 2013; interest rate at (a) 1.55% for type A bond and (b) 1.70% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).       | 2,300,000            | 2,300,000                           |
| Subordinated bonds issued on August 28, 2013; 1.75% interest payable annually; principal repayable on maturity (7 years after the issue date).                                                                                                                                                      | 2,700,000            | 2,700,000                           |
| Two types of subordinated bonds issued on December 19, 2013; interest rate at (a) 1.75% for type A bond and (b) 1.85% for type B bond; interest payable annually for both bond types; principal repayable on maturity (5.5 years for type A bond and 7 years for type B bond after the issue date). | 1,500,000            | 1,500,000                           |
| Two types of subordinated bonds issued on March 7, 2014; interest rate at (a) 1.80% for type A bond and (b) 1.95% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date)       | 3,500,000            | 3,500,000                           |
| Two types of subordinated bonds issued on April 30, 2015; interest rate at (a) 1.80% for type A bond and (b) 2.10% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).     | 5,000,000            | 5,000,000                           |
| Two types of subordinated bonds issued on September 29, 2015; interest rate at (a) 1.65% for type A bond and (b) 2.00% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date). | <u>3,750,000</u>     | <u>3,750,000</u>                    |
|                                                                                                                                                                                                                                                                                                     | <u>\$ 36,750,000</u> | <u>\$ 42,250,000</u><br>(Concluded) |

The Bank designated the bank debentures as at fair value through profit or loss, which are summarized below:

|                                                                                                  | <b>December 31</b>   |                      |
|--------------------------------------------------------------------------------------------------|----------------------|----------------------|
|                                                                                                  | <b>2017</b>          | <b>2016</b>          |
| Unsecured USD-denominated subordinated bonds issued on May 27, 2015                              | \$ 2,884,604         | \$ 2,937,252         |
| Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on May 27, 2015      | 2,430,415            | 2,552,508            |
| Unsecured USD-denominated subordinated bonds issued on October 28, 2015                          | 2,158,563            | 2,172,550            |
| Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on October 28, 2015  | 1,310,496            | 1,326,842            |
| Unsecured USD-denominated subordinated bonds issued on January 22, 2016                          | 8,134,900            | 8,207,951            |
| Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on January 22, 2016  | 6,777,596            | 7,385,711            |
| Unsecured USD-denominated subordinated bonds issued on June 6, 2016                              | 2,799,052            | 2,776,330            |
| Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on June 6, 2016      | 2,719,679            | 2,816,048            |
| Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on December 29, 2016 | 2,786,618            | 2,936,263            |
| Unsecured USD-denominated bonds issued on May 19, 2017                                           | 1,745,022            | -                    |
| Unsecured USD-denominated bonds issued on November 21, 2017                                      | <u>4,026,803</u>     | <u>-</u>             |
|                                                                                                  | <u>\$ 37,773,748</u> | <u>\$ 33,111,455</u> |

On August 27, 2014, the Bank issued bank debentures amounting to US\$300,000 thousand with a 20-year maturity and 0% interest rate. The Bank may either redeem the bonds at an agreed-upon price every August 27 after two years from the issue date, or make bond repayments on the maturity date. The Bank redeemed the bonds amounting to US\$300,000 thousand on August 29, 2016 under the terms of issuance.

On May 27, 2015, the Bank issued unsecured subordinated bank debentures amounting to US\$85,000 thousand with a 30-year maturity and 0% interest rate. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may either redeem the bonds at an agreed-upon price after seven years from the issue date and every five years afterward, or make bond repayments on the maturity date.

On May 27, 2015, the Bank issued unsecured noncumulative perpetual subordinated bank debentures amounting to US\$85,000 thousand with no maturity date and with a 4.97% interest payable annually on July 1 under certain interest payment conditions. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may redeem all the bonds after 15 years from the issue date.

On October 28, 2015, the Bank issued unsecured subordinated bank debentures amounting to US\$63,000 thousand with a 30-year maturity and 0% interest rate. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may either redeem the bonds at an agreed-upon price after seven years from the issue date and every five years afterward, or make bond repayments on the maturity date.

On October 28, 2015, the Bank issued unsecured noncumulative perpetual subordinated bank debentures amounting to US\$43,000 thousand with no maturity date and with a 5.10% interest payable annually on July 1 under certain interest payment conditions. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may redeem all the bonds after 15 years from the issue date.

On January 22, 2016, the Bank issued unsecured subordinated bank debentures amounting to US\$240,000 thousand with a 30-year maturity and 0% interest rate. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may either redeem the bonds at an agreed-upon price after seven years from the issue date and every five years afterward, or make bond repayments on the maturity date.

On January 22, 2016, the Bank issued unsecured noncumulative perpetual subordinated bank debentures amounting to US\$240,000 thousand with no maturity date and with a 5.10% interest payable annually on July 1 under certain interest payment conditions. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may redeem all the bonds after 15 years from the issue date.

On June 6, 2016, the Bank issued unsecured subordinated bank debentures amounting to US\$95,000 thousand with a 30-year maturity and 0% interest rate. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may either redeem the bonds at an agreed-upon price after seven years from the issue date and every five years afterward, or make bond repayments on the maturity date.

On June 6, 2016, the Bank issued unsecured noncumulative perpetual subordinated bank debentures amounting to US\$95,000 thousand with no maturity date and with a 4.41% interest payable annually on July 1 under certain interest payment conditions. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may redeem all the bonds after 15 years from the issue date.

On December 29, 2016, the Bank issued unsecured noncumulative perpetual subordinated bank debentures amounting to US\$90,000 thousand with no maturity date and with a 4.85% interest payable annually on July 1 under certain interest payment conditions. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may redeem all the bonds after 15 years from the issue date.

On May 19, 2017, the Bank issued unsecured bank debentures amounting to US\$60,000 thousand with a 30-year maturity and 0% interest rate. In accordance with the terms of the bank debentures, the Bank may either redeem the bonds at an agreed-upon price after five years from the issue date and each year afterward, or make bond repayments on the maturity date.

On November 21, 2017, the Bank issued unsecured bank debentures amounting to US\$135,000 thousand with a 30-year maturity and 0% interest rate. In accordance with the terms of the bank debentures, the Bank may either redeem the bonds at an agreed-upon price after five years from the issue date and each year afterward, or make bond repayments on the maturity date.

On February 12, 2018, the Bank issued unsecured noncumulative perpetual subordinated bank debentures amounting to US\$200,000 thousand with no maturity date and with a 4.75% interest payable annually on July 1 under certain interest payment conditions. In accordance with the terms of the bank debentures and with the approval of the authorities, the Bank may redeem all the bonds after 15 years from the issue date.

To hedge against its exposure to interest rate risk due to the issuance of the above bank debentures, the Bank entered into interest rate swap (IRS) contracts, which are measured at fair value. The changes in fair value of the IRS contracts are recognized in profit or loss. To eliminate an accounting mismatch, the Bank also designated the bank debentures as at fair value through profit or loss.

To enhance the Bank's working capital and to support business sustainable development and the government's green finance policy, the Bank applied for the issuance of unsecured bank debentures amounting to NT\$10,000,000 thousand (or foreign currency equivalent); and noncumulative perpetual subordinated bank debentures and long-term subordinated bank debentures amounting to NT\$10,000,000 thousand (or foreign currency equivalent). The applications were approved by the FSC on May 12, 2017 and December 11, 2017, respectively.

As of the date of the consolidated financial statements were authorized for issue, debentures amounting to NT\$4,000,000 thousand (or foreign currency equivalent) and NT\$10,000,000 thousand (or foreign currency equivalent) had not yet been issued.

To enhance the Bank's working capital, the Bank's board of directors approved the issuance of unsecured USD-denominated bank debentures amounting to US\$300,000 thousand on March 16, 2018. The Bank is going to apply for the approval of this issuance to the FSC.

#### 24. OTHER FINANCIAL LIABILITIES

|                                  | <b>December 31</b>  |                     |
|----------------------------------|---------------------|---------------------|
|                                  | <b>2017</b>         | <b>2016</b>         |
| Principal of structured products | \$ 3,949,340        | \$ 5,896,546        |
| Long-term borrowing              | 1,253,949           | 3,292,458           |
| Guarantee deposits received      | 396,210             | 304,154             |
| Appropriations for loans         | 350,240             | -                   |
| Short-term borrowing             | <u>-</u>            | <u>161,395</u>      |
|                                  | <u>\$ 5,949,739</u> | <u>\$ 9,654,553</u> |

#### 25. PROVISIONS

|                                    | <b>December 31</b> |                   |
|------------------------------------|--------------------|-------------------|
|                                    | <b>2017</b>        | <b>2016</b>       |
| Provision for employee benefits    | \$ 320,215         | \$ 269,443        |
| Provision for losses on guarantees | 129,547            | 124,146           |
| Others                             | <u>25,073</u>      | <u>24,219</u>     |
|                                    | <u>\$ 474,835</u>  | <u>\$ 417,808</u> |

#### 26. POST-EMPLOYMENT BENEFIT PLAN

##### a. Defined contribution plan

The pension mechanism under the Labor Pension Act (the Act) is deemed a defined contribution plan. Under the Act, the Company makes monthly contribution equal to 6% of each employee's monthly salary to employees' pension accounts in the Bureau of Labor Insurance.

The Company recognized expenses of \$351,444 thousand and \$273,474 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2017 and 2016, respectively, in accordance with the defined contribution plan.

b. Defined benefit plan

The Company has a defined benefit pension plan for all regular employees. Under this plan, the pension is calculated on the basis of an employee's seniority accumulated since the hire date in accordance with the Labor Standards Act.

The Company makes monthly contributions, equal to 2% of salaries and wages, to a pension fund. The fund is deposited in the Bank of Taiwan in the name of the Supervisory Committee of Workers' Retirement Preparation Fund, which manages the fund. The difference between the contributions and the pension costs based on actuarial calculations is deposited in a financial institution in the name of the employees' pension fund administration committee. Starting from July 1, 2005, the Company has made monthly contributions to the pension fund by the foregoing pension calculation for the employees that choose to continue being subject to the Labor Standards Act.

The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the Bureau) and the Company has no right to influence the investment policy and strategy. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay post-employment benefits for employees who conform to post-employment requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year.

The amounts included in the consolidated balance sheets in respect of the Company's defined benefit plans were as follows:

|                                                                         | <b>December 31</b> |                    |
|-------------------------------------------------------------------------|--------------------|--------------------|
|                                                                         | <b>2017</b>        | <b>2016</b>        |
| Present value of defined benefit obligation                             | \$ 1,857,580       | \$ 1,734,591       |
| Fair value of plan assets                                               | <u>(1,537,365)</u> | <u>(1,465,148)</u> |
| Net defined benefit liability (part of provision for employee benefits) | <u>\$ 320,215</u>  | <u>\$ 269,443</u>  |

Movements in net defined benefit liability were as follows:

|                                                                       | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan Assets</b> | <b>Total</b>    |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------|-----------------|
| Balance at January 1, 2016                                            | \$ 1,674,839                                                       | \$ (1,386,430)                           | \$ 288,409      |
| Acquisition through business combination<br>(Note 45)                 | <u>24,414</u>                                                      | <u>(19,646)</u>                          | <u>4,768</u>    |
| Service cost                                                          |                                                                    |                                          |                 |
| Current service cost                                                  | 22,769                                                             | -                                        | 22,769          |
| Net interest expense (income)                                         | <u>27,014</u>                                                      | <u>(22,640)</u>                          | <u>4,374</u>    |
| Recognized in profit or loss                                          | <u>49,783</u>                                                      | <u>(22,640)</u>                          | <u>27,143</u>   |
| Remeasurement                                                         |                                                                    |                                          |                 |
| Return on plan assets (excluding amounts<br>included in net interest) | -                                                                  | (28,012)                                 | (28,012)        |
| Actuarial gain - changes in financial<br>assumptions                  | (25,058)                                                           | -                                        | (25,058)        |
| Actuarial loss - experience adjustments                               | <u>33,015</u>                                                      | -                                        | <u>33,015</u>   |
| Recognized in other comprehensive income                              | <u>7,957</u>                                                       | <u>(28,012)</u>                          | <u>(20,055)</u> |

(Continued)

|                                                                       | <b>Present Value<br/>of the Defined<br/>Benefit<br/>Obligation</b> | <b>Fair Value of<br/>the Plan Assets</b> | <b>Total</b>                     |
|-----------------------------------------------------------------------|--------------------------------------------------------------------|------------------------------------------|----------------------------------|
| Contributions from the employer                                       | \$ -                                                               | \$ (30,822)                              | \$ (30,822)                      |
| Benefits paid                                                         | <u>(22,402)</u>                                                    | <u>22,402</u>                            | <u>-</u>                         |
| Balance at December 31, 2016                                          | <u>1,734,591</u>                                                   | <u>(1,465,148)</u>                       | <u>269,443</u>                   |
| Service cost                                                          |                                                                    |                                          |                                  |
| Current service cost                                                  | 22,909                                                             | -                                        | 22,909                           |
| Net interest expense (income)                                         | <u>29,201</u>                                                      | <u>(24,916)</u>                          | <u>4,285</u>                     |
| Recognized in profit or loss                                          | <u>52,110</u>                                                      | <u>(24,916)</u>                          | <u>27,194</u>                    |
| Remeasurement                                                         |                                                                    |                                          |                                  |
| Return on plan assets (excluding amounts<br>included in net interest) | -                                                                  | (76,560)                                 | (76,560)                         |
| Actuarial loss - changes in financial<br>assumptions                  | 87,998                                                             | -                                        | 87,998                           |
| Actuarial loss - experience adjustments                               | <u>41,345</u>                                                      | <u>-</u>                                 | <u>41,345</u>                    |
| Recognized in other comprehensive income                              | <u>129,343</u>                                                     | <u>(76,560)</u>                          | <u>52,783</u>                    |
| Contributions from the employer                                       | <u>-</u>                                                           | <u>(29,205)</u>                          | <u>(29,205)</u>                  |
| Benefits paid                                                         | <u>(58,464)</u>                                                    | <u>58,464</u>                            | <u>-</u>                         |
| Balance at December 31, 2017                                          | <u>\$ 1,857,580</u>                                                | <u>\$ (1,537,365)</u>                    | <u>\$ 320,215</u><br>(Concluded) |

Through the defined benefit plans under the Labor Standards Law, the Company is exposed to the following risks:

- 1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- 2) Interest risk: A decrease in the government bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The principal assumptions used for the purposes of the actuarial valuations were as follows:

|                                          | <b>December 31</b> |             |
|------------------------------------------|--------------------|-------------|
|                                          | <b>2017</b>        | <b>2016</b> |
| Discount rate                            | 1.00%-1.35%        | 1.25%-1.70% |
| Expected rates of return on plan assets  | 1.35%              | 1.70%       |
| Expected rates of future salary increase | 2.50%-3.00%        | 2.50%-3.00% |

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

|                                     | <b>December 31</b> |                    |
|-------------------------------------|--------------------|--------------------|
|                                     | <b>2017</b>        | <b>2016</b>        |
| Discount rate(s)                    |                    |                    |
| 0.25% increase                      | <u>\$ (63,481)</u> | <u>\$ (61,676)</u> |
| 0.25% decrease                      | <u>\$ 66,398</u>   | <u>\$ 64,605</u>   |
| Expected rate(s) of salary increase |                    |                    |
| 0.25% increase                      | <u>\$ 64,311</u>   | <u>\$ 62,857</u>   |
| 0.25% decrease                      | <u>\$ (61,856)</u> | <u>\$ (60,359)</u> |

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

As of December 31, 2017 and 2016, the expected contributions to the plan for the next year were \$28,316 thousand and \$30,622 thousand, respectively; the average durations of the defined benefit obligation were 7 to 14.15 years and 8 to 14.73 years, respectively.

## 27. OTHER LIABILITIES

|                  | <b>December 31</b>  |                     |
|------------------|---------------------|---------------------|
|                  | <b>2017</b>         | <b>2016</b>         |
| Advance receipts | \$ 1,471,482        | \$ 1,283,830        |
| Deferred revenue | 554,434             | 630,211             |
| Others           | <u>3,941</u>        | <u>21,524</u>       |
|                  | <u>\$ 2,029,857</u> | <u>\$ 1,935,565</u> |

## 28. NET INTEREST

|                                              | <b>For the Year Ended December 31</b> |                      |
|----------------------------------------------|---------------------------------------|----------------------|
|                                              | <b>2017</b>                           | <b>2016</b>          |
| Interest revenue                             |                                       |                      |
| From discounts and loans                     | \$ 25,975,267                         | \$ 23,563,270        |
| From investments                             | 3,148,720                             | 2,626,756            |
| From revolving interests of credit cards     | 1,977,215                             | 1,759,801            |
| From due from banks and call loans to banks  | 1,324,966                             | 1,325,342            |
| Others                                       | <u>230,566</u>                        | <u>254,913</u>       |
|                                              | <u>32,656,734</u>                     | <u>29,530,082</u>    |
| Interest expense                             |                                       |                      |
| From deposits                                | (10,260,122)                          | (9,199,190)          |
| From due to the Central Bank and other banks | (1,299,786)                           | (872,573)            |
| From issuing bank debentures                 | (706,865)                             | (814,173)            |
| Others                                       | <u>(375,125)</u>                      | <u>(225,139)</u>     |
|                                              | <u>(12,641,898)</u>                   | <u>(11,111,075)</u>  |
|                                              | <u>\$ 20,014,836</u>                  | <u>\$ 18,419,007</u> |

## 29. SERVICE FEE INCOME, NET

|                              | <u>For the Year Ended December 31</u> |                      |
|------------------------------|---------------------------------------|----------------------|
|                              | 2017                                  | 2016                 |
| Service fee income           |                                       |                      |
| From credit cards            | \$ 5,732,714                          | \$ 5,252,193         |
| From insurance               | 4,068,879                             | 5,134,541            |
| From trust business          | 3,429,709                             | 2,806,871            |
| From loans                   | 1,440,767                             | 1,471,176            |
| Others                       | <u>1,982,635</u>                      | <u>2,002,268</u>     |
|                              | <u>16,654,704</u>                     | <u>16,667,049</u>    |
| Service charge               |                                       |                      |
| From agency                  | (731,149)                             | (690,523)            |
| From cross-bank transactions | (336,753)                             | (317,282)            |
| From computer processing     | (217,635)                             | (320,575)            |
| Others                       | <u>(465,771)</u>                      | <u>(399,368)</u>     |
|                              | <u>(1,751,308)</u>                    | <u>(1,727,748)</u>   |
|                              | <u>\$ 14,903,396</u>                  | <u>\$ 14,939,301</u> |

## 30. GAINS (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|                                                                          | <u>For the Year Ended December 31, 2017</u> |                                       |                                    |                                     |                     |
|--------------------------------------------------------------------------|---------------------------------------------|---------------------------------------|------------------------------------|-------------------------------------|---------------------|
|                                                                          | <u>Dividend Income</u>                      | <u>Interest Revenue<br/>(Expense)</u> | <u>Gain (Loss) on<br/>Disposal</u> | <u>Gain (Loss) on<br/>Valuation</u> | <u>Total</u>        |
| Held-for-trading financial assets                                        | \$ 16,497                                   | \$ 1,452,057                          | \$ 14,868,474                      | \$ (1,003,901)                      | \$ 15,333,127       |
| Financial assets designated as at fair value through profit or loss      | -                                           | 4,204,392                             | 158,375                            | 3,183                               | 4,365,950           |
| Held-for-trading financial liabilities                                   | -                                           | -                                     | (17,471,329)                       | 969,105                             | (16,502,224)        |
| Financial liabilities designated as at fair value through profit or loss | <u>-</u>                                    | <u>(1,622,662)</u>                    | <u>465</u>                         | <u>(563,596)</u>                    | <u>(2,185,793)</u>  |
|                                                                          | <u>\$ 16,497</u>                            | <u>\$ 4,033,787</u>                   | <u>\$ (2,444,015)</u>              | <u>\$ (595,209)</u>                 | <u>\$ 1,011,060</u> |

|                                                                          | <u>For the Year Ended December 31, 2016</u> |                                       |                                    |                                     |                     |
|--------------------------------------------------------------------------|---------------------------------------------|---------------------------------------|------------------------------------|-------------------------------------|---------------------|
|                                                                          | <u>Dividend Income</u>                      | <u>Interest Revenue<br/>(Expense)</u> | <u>Gain (Loss) on<br/>Disposal</u> | <u>Gain (Loss) on<br/>Valuation</u> | <u>Total</u>        |
| Held-for-trading financial assets                                        | \$ 9,341                                    | \$ 1,530,632                          | \$ 14,613,749                      | \$ (4,920,548)                      | \$ 11,233,174       |
| Financial assets designated as at fair value through profit or loss      | -                                           | 3,364,736                             | 37,627                             | 170,115                             | 3,572,478           |
| Held-for-trading financial liabilities                                   | -                                           | -                                     | (12,381,874)                       | 3,102,162                           | (9,279,712)         |
| Financial liabilities designated as at fair value through profit or loss | <u>-</u>                                    | <u>(1,619,437)</u>                    | <u>(1,857)</u>                     | <u>1,555,038</u>                    | <u>(66,256)</u>     |
|                                                                          | <u>\$ 9,341</u>                             | <u>\$ 3,275,931</u>                   | <u>\$ 2,267,645</u>                | <u>\$ (93,233)</u>                  | <u>\$ 5,459,684</u> |

### 31. EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION EXPENSE

|                                            | <u>For the Year Ended December 31</u> |              |
|--------------------------------------------|---------------------------------------|--------------|
|                                            | 2017                                  | 2016         |
| Employee benefit                           |                                       |              |
| Salaries                                   | \$ 9,037,894                          | \$ 8,084,592 |
| Insurance                                  | 608,994                               | 533,788      |
| Excessive interest from preferential rates | 176,596                               | 165,084      |
| Post-employment benefits                   | 378,638                               | 300,617      |
| Others                                     | 517,896                               | 534,173      |
| Depreciation expenses                      | 1,215,688                             | 1,006,524    |
| Amortization expenses                      | 564,965                               | 445,750      |

Under the Articles of Incorporation of the Bank, the Bank distributes employees' compensation and remuneration of directors at the rates 3% and no higher than 0.6%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors (after offsetting accumulated deficit). Accrued employees' compensation was \$508,282 thousand and \$476,023 thousand in 2017 and 2016, respectively. Remuneration of directors was \$86,000 thousand and \$80,000 thousand in 2017 and 2016, respectively.

Material differences between such estimated amounts and the amounts resolved by the board of directors on or before the annual consolidated financial statements are authorized for issue are adjusted in the year the compensation were recognized. If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the differences are recorded in the next fiscal year as a change in accounting estimate.

The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Bank's board of directors on March 1, 2017 and March 18, 2016, respectively, were as follows:

|                                  | <u>For the Year Ended December 31</u> |            |                           |            |
|----------------------------------|---------------------------------------|------------|---------------------------|------------|
|                                  | <u>Amounts Approved</u>               |            | <u>Amounts Recognized</u> |            |
|                                  | 2016                                  | 2015       | 2016                      | 2015       |
| Employees' compensation - cash   | \$ 475,961                            | \$ 418,948 | \$ 476,023                | \$ 418,948 |
| Remuneration of directors - cash | 80,000                                | 71,000     | 80,000                    | 80,000     |

The differences between the approved amounts of employees' compensation and remuneration of directors for 2016 and 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2016 and 2015, respectively, were resulted from a change in the accounting estimate. The differences were recognized in profit or loss for 2017 and 2016, respectively.

The employees' compensation to employees and the remuneration of directors for 2017, which were approved by the Bank's board of directors on March 16, 2018, were as follows:

|                                  | <b>2017</b> |
|----------------------------------|-------------|
| Employees' compensation - cash   | \$ 508,278  |
| Remuneration of directors - cash | 86,000      |

Information on the approved amounts of employees' compensation and remuneration of directors is available at the website of the Taiwan Stock Exchange (<http://emops.tse.com.tw>).

## 32. INCOME TAX

### a. Income tax recognized in profit or loss

Main components of income tax expense were as follows:

|                                                      | <b>For the Year Ended December 31</b> |                     |
|------------------------------------------------------|---------------------------------------|---------------------|
|                                                      | <b>2017</b>                           | <b>2016</b>         |
| Current tax                                          |                                       |                     |
| Current year                                         | \$ 2,824,230                          | \$ 2,185,776        |
| Additional 10% income tax on unappropriated earnings | 1,245                                 | 19,928              |
| Prior year's adjustments                             | <u>(14,067)</u>                       | <u>6,845</u>        |
|                                                      | <u>2,811,408</u>                      | <u>2,212,549</u>    |
| Deferred tax                                         |                                       |                     |
| Current year                                         | (635,071)                             | (41,177)            |
| Prior year's adjustments                             | <u>(8,641)</u>                        | <u>(7)</u>          |
|                                                      | <u>(643,712)</u>                      | <u>(41,184)</u>     |
| Income tax expense recognized in profit or loss      | <u>\$ 2,167,696</u>                   | <u>\$ 2,171,365</u> |

A reconciliation of accounting profit and current income tax expenses was as follows:

|                                                                                    | <b>For the Year Ended December 31</b> |                      |
|------------------------------------------------------------------------------------|---------------------------------------|----------------------|
|                                                                                    | <b>2017</b>                           | <b>2016</b>          |
| Income before tax from continuing operations                                       | <u>\$ 16,953,298</u>                  | <u>\$ 15,431,475</u> |
| Income tax expense at the 17% statutory rate                                       | \$ 2,882,061                          | \$ 2,623,351         |
| Nondeductible expenses in determining taxable income                               | 115,099                               | 81,939               |
| Tax-exempt income                                                                  | (974,444)                             | (847,511)            |
| Additional income tax under the Alternative Minimum Tax Act                        | -                                     | 13,762               |
| Additional 10% income tax on unappropriated earnings                               | 1,245                                 | 19,928               |
| Unrecognized deductible temporary differences                                      | 61,643                                | 179,786              |
| Effect of different tax rate of overseas branches operating in other jurisdictions | 104,800                               | 93,272               |
| Adjustments for prior year's income tax                                            | <u>(22,708)</u>                       | <u>6,838</u>         |
| Income tax expense recognized in profit or loss                                    | <u>\$ 2,167,696</u>                   | <u>\$ 2,171,365</u>  |

In February 2018, it was announced that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and increase by \$101,091 thousand and \$93,501 thousand, respectively, in 2018.

b. Income tax recognized in other comprehensive income

|                                                                                       | <u>For the Year Ended December 31</u> |                         |
|---------------------------------------------------------------------------------------|---------------------------------------|-------------------------|
|                                                                                       | 2017                                  | 2016                    |
| <u>Deferred tax</u>                                                                   |                                       |                         |
| Recognized in other comprehensive income:                                             |                                       |                         |
| Items that will not be reclassified subsequently to profit or loss                    |                                       |                         |
| Remeasurement of defined benefit plans                                                | \$ (34)                               | \$ (574)                |
| Items that may be reclassified subsequently to profit or loss                         |                                       |                         |
| Exchange differences on the translation of financial statements of foreign operations | (149,638)                             | (254,116)               |
| Unrealized gains or losses on available-for-sale financial assets                     | <u>50,824</u>                         | <u>19,412</u>           |
|                                                                                       | <u>(98,814)</u>                       | <u>(234,704)</u>        |
| <br>Total income tax benefit recognized in other comprehensive income                 | <br><u>\$ (98,848)</u>                | <br><u>\$ (235,278)</u> |

c. Current tax assets and liabilities

|                                  | <u>December 31</u>  |                     |
|----------------------------------|---------------------|---------------------|
|                                  | 2017                | 2016                |
| Current tax assets               |                     |                     |
| Prepaid taxes                    | \$ <u>5,054</u>     | \$ <u>-</u>         |
| Current tax liabilities          |                     |                     |
| Consolidated tax return payables | \$ 1,202,813        | \$ 1,117,741        |
| Income tax payable               | <u>179,373</u>      | <u>117,733</u>      |
|                                  | <u>\$ 1,382,186</u> | <u>\$ 1,235,474</u> |

d. Deferred tax assets and liabilities

Movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2017

|                                                            | Opening Balance | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Difference | Others | Closing Balance |
|------------------------------------------------------------|-----------------|------------------------------|------------------------------------------|---------------------|--------|-----------------|
| <u>Deferred tax assets</u>                                 |                 |                              |                                          |                     |        |                 |
| Temporary differences                                      |                 |                              |                                          |                     |        |                 |
| Financial instruments at fair value through profit or loss | \$ 128,911      | \$ 164,458                   | \$ -                                     | \$ -                | \$ -   | \$ 293,369      |
| Allowance for possible losses                              | 24,965          | (320)                        | -                                        | (1,873)             | -      | 22,772          |
| Available-for-sale financial assets                        | -               | -                            | 5,128                                    | 80                  | -      | 5,208           |
| Other financial assets                                     | 1,003           | -                            | -                                        | -                   | -      | 1,003           |
| Investment properties                                      | 57              | (57)                         | -                                        | -                   | -      | -               |
| Properties and equipment                                   | 3,844           | 2,027                        | -                                        | (38)                | -      | 5,833           |
| Foreclosed collaterals                                     | 2,133           | -                            | -                                        | -                   | -      | 2,133           |
| Other assets                                               | 107             | -                            | -                                        | -                   | -      | 107             |
| Payable for annual leave                                   | 45,722          | 12,148                       | -                                        | -                   | -      | 57,870          |
| Other liabilities                                          | 26,285          | 5,029                        | -                                        | -                   | -      | 31,314          |
| Defined benefit plans                                      | 1,216           | -                            | 34                                       | -                   | -      | 1,250           |
| Exchange differences on foreign operations                 | 30,587          | -                            | 149,638                                  | -                   | -      | 180,225         |

(Continued)

|                                                            | Opening Balance   | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Difference | Others      | Closing Balance   |
|------------------------------------------------------------|-------------------|------------------------------|------------------------------------------|---------------------|-------------|-------------------|
| Payable for long-term compensation of employees            | \$ -              | \$ 1,254                     | \$ -                                     | \$ -                | \$ -        | \$ 1,254          |
| Others                                                     | 2,550             | 366                          | -                                        | (171)               | -           | 2,745             |
|                                                            | 267,380           | 184,905                      | 154,800                                  | (2,002)             | -           | 605,083           |
| Unused loss carryforward                                   | 156,326           | 176,159                      | -                                        | (11,190)            | -           | 321,295           |
|                                                            | <u>\$ 423,706</u> | <u>\$ 361,064</u>            | <u>\$ 154,800</u>                        | <u>\$ (13,192)</u>  | <u>\$ -</u> | <u>\$ 926,378</u> |
| <b>Deferred tax liabilities</b>                            |                   |                              |                                          |                     |             |                   |
| Temporary differences                                      |                   |                              |                                          |                     |             |                   |
| Available-for-sale financial assets                        | \$ 19,607         | \$ 170                       | \$ 55,952                                | \$ (249)            | \$ -        | \$ 75,480         |
| Properties and equipment                                   | 3,994             | (3,763)                      | -                                        | (231)               | -           | -                 |
| Financial instruments at fair value through profit or loss | 270,621           | (270,621)                    | -                                        | -                   | -           | -                 |
| Intangible assets                                          | 520,781           | (8,105)                      | -                                        | -                   | -           | 512,676           |
| Unrealized foreign exchange gains                          | 19,231            | (329)                        | -                                        | (33)                | -           | 18,869            |
| Provision of land revaluation increment tax                | 90,510            | -                            | -                                        | -                   | -           | 90,510            |
|                                                            | <u>\$ 924,744</u> | <u>\$ (282,648)</u>          | <u>\$ 55,952</u>                         | <u>\$ (513)</u>     | <u>\$ -</u> | <u>\$ 697,535</u> |

(Concluded)

For the year ended December 31, 2016

|                                                                        | Opening Balance     | Recognized in Profit or Loss | Recognized in Other Comprehensive Income | Exchange Difference | Others          | Closing Balance   |
|------------------------------------------------------------------------|---------------------|------------------------------|------------------------------------------|---------------------|-----------------|-------------------|
| <b>Deferred tax assets</b>                                             |                     |                              |                                          |                     |                 |                   |
| Temporary differences                                                  |                     |                              |                                          |                     |                 |                   |
| Financial instruments at fair value through profit or loss             | \$ 114,830          | \$ 14,081                    | \$ -                                     | \$ -                | \$ -            | \$ 128,911        |
| Allowance for possible losses                                          | 266,220             | (241,245)                    | -                                        | (10)                | -               | 24,965            |
| Available-for-sale financial assets                                    | 8,298               | -                            | (8,298)                                  | -                   | -               | -                 |
| Other financial assets                                                 | 2,862               | (1,859)                      | -                                        | -                   | -               | 1,003             |
| Investment properties                                                  | 36                  | 21                           | -                                        | -                   | -               | 57                |
| Properties and equipment                                               | 3,676               | 168                          | -                                        | -                   | -               | 3,844             |
| Foreclosed collaterals                                                 | 2,133               | -                            | -                                        | -                   | -               | 2,133             |
| Other assets                                                           | 107                 | -                            | -                                        | -                   | -               | 107               |
| Payable for annual leave                                               | 38,618              | 6,903                        | -                                        | -                   | 201             | 45,722            |
| Other liabilities                                                      | 20,070              | 6,215                        | -                                        | -                   | -               | 26,285            |
| Defined benefit plans                                                  | -                   | -                            | 574                                      | -                   | 642             | 1,216             |
| Exchange differences on foreign operations                             | -                   | -                            | 30,587                                   | -                   | -               | 30,587            |
| Others                                                                 | 526                 | 1,653                        | -                                        | (11)                | 382             | 2,550             |
|                                                                        | 457,376             | (214,063)                    | 22,863                                   | (21)                | 1,225           | 267,380           |
| Unused loss carryforward                                               | 26,962              | 132,487                      | -                                        | (3,123)             | -               | 156,326           |
|                                                                        | <u>\$ 484,338</u>   | <u>\$ (81,576)</u>           | <u>\$ 22,863</u>                         | <u>\$ (3,144)</u>   | <u>\$ 1,225</u> | <u>\$ 423,706</u> |
| <b>Deferred tax liabilities</b>                                        |                     |                              |                                          |                     |                 |                   |
| Temporary differences                                                  |                     |                              |                                          |                     |                 |                   |
| Available-for-sale financial assets                                    | \$ 8,837            | \$ (18)                      | \$ 11,114                                | \$ (326)            | \$ -            | \$ 19,607         |
| Properties and equipment                                               | 4,521               | (443)                        | -                                        | (84)                | -               | 3,994             |
| Financial instruments at fair value through profit or loss             | 355,047             | (84,426)                     | -                                        | -                   | -               | 270,621           |
| Share of profit of subsidiaries, accounted for using the equity method | 40,726              | (40,726)                     | -                                        | -                   | -               | -                 |
| Intangible assets                                                      | 517,400             | 3,381                        | -                                        | -                   | -               | 520,781           |
| Unrealized foreign exchange gains                                      | 19,759              | (528)                        | -                                        | -                   | -               | 19,231            |
| Provision of land revaluation increment tax                            | 90,510              | -                            | -                                        | -                   | -               | 90,510            |
| Exchange differences on foreign operations                             | 223,529             | -                            | (223,529)                                | -                   | -               | -                 |
|                                                                        | <u>\$ 1,260,329</u> | <u>\$ (122,760)</u>          | <u>\$ (212,415)</u>                      | <u>\$ (410)</u>     | <u>\$ -</u>     | <u>\$ 924,744</u> |

e. Unrecognized deferred tax assets

|                                 | <u>December 31</u>  |                     |
|---------------------------------|---------------------|---------------------|
|                                 | <u>2017</u>         | <u>2016</u>         |
| Deductible temporary difference | <u>\$ 4,393,728</u> | <u>\$ 3,447,592</u> |

f. Imputed tax credit is summarized as follows:

|                                                | <u>December 31</u>    |                  |
|------------------------------------------------|-----------------------|------------------|
|                                                | <u>2017</u>           | <u>2016</u>      |
| Balance of the imputation credit account (ICA) | <u>\$ -</u><br>(Note) | <u>\$ 68,042</u> |

|                      | <u>December 31</u>    |                                                     |
|----------------------|-----------------------|-----------------------------------------------------|
|                      | <u>2017</u>           | <u>2016</u>                                         |
| The creditable ratio | <u>\$ -</u><br>(Note) | Cash dividends<br>0.70%<br>Stock dividends<br>0.69% |

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

g. As of December 31, 2017 and 2016, the balance of unappropriated earnings generated before January 1, 1998, was zero.

h. The income tax returns through 2013 have been assessed by the tax authorities.

### 33. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

|                                             | <b>Amount<br/>(Numerator)</b> | <b>Shares<br/>(Denominator<br/>in Thousands)</b> | <b>Earnings Per<br/>Share (Dollars)</b> |
|---------------------------------------------|-------------------------------|--------------------------------------------------|-----------------------------------------|
| <u>For the year ended December 31, 2017</u> |                               |                                                  |                                         |
| Basic earnings per share                    |                               |                                                  |                                         |
| Net income                                  | <u>\$ 14,886,870</u>          | <u>8,053,952</u>                                 | <u>\$ 1.85</u>                          |
| <u>For the year ended December 31, 2016</u> |                               |                                                  |                                         |
| Basic earnings per share                    |                               |                                                  |                                         |
| Net income                                  | <u>\$ 13,411,351</u>          | <u>7,708,100</u>                                 | <u>\$ 1.74</u>                          |

The number of shares outstanding was retrospectively adjusted to reflect the effects of the stock dividends distributed in the year following earnings appropriation. The basic earnings per share after income tax were retrospectively adjusted as follows:

**Unit: NT\$ Per Share**

|                          | <b>For the Year Ended<br/>December 31, 2016</b> |                                               |
|--------------------------|-------------------------------------------------|-----------------------------------------------|
|                          | <b>Before<br/>Retrospective<br/>Adjustment</b>  | <b>After<br/>Retrospective<br/>Adjustment</b> |
| Basic earnings per share | <u>\$ 1.85</u>                                  | <u>\$ 1.74</u>                                |

### 34. EQUITY

#### a. Capital stock

##### Common stock

|                                            | <b>December 31</b>   |                      |
|--------------------------------------------|----------------------|----------------------|
|                                            | <b>2017</b>          | <b>2016</b>          |
| Authorized number of shares (in thousands) | <u>8,312,100</u>     | <u>7,262,883</u>     |
| Authorized capital                         | <u>\$ 83,121,000</u> | <u>\$ 72,628,830</u> |
| Number of shares issued (in thousands)     | <u>8,312,100</u>     | <u>7,262,883</u>     |
| Common stock issued                        | <u>\$ 83,121,000</u> | <u>\$ 72,628,830</u> |

Common stock issued has a NT\$10 par value. Each share has one voting right and the right to receive dividends.

On March 25, 2016, the Bank merged with ESIB through a share swap of 44,183 thousand new issued shares. The issuance was approved by the Ministry of Economic Affairs (MOEA).

The stockholders resolved to use the 2015 unappropriated earnings of \$5,347,000 thousand as stock dividends consisting of 534,700 thousand shares and increase its authorized capital to \$72,628,830 thousand on April 27, 2016. The issuance was approved by MOEA.

On April 28, 2017, the board of directors of the Bank resolved to increase its capital by \$10,500,000 thousand through private placement, to issue 604,000 thousand shares at NT\$17.384106 per share. ESFHC subscribed for all the new shares. This issuance was approved by MOEA.

The stockholders resolved to use the 2016 unappropriated earnings of \$4,452,170 thousand as stock dividends consisting of 445,217 thousand shares on April 28, 2017. This issuance was approved by MOEA.

#### b. Capital surplus

In their meeting on March 1, 2017, ESFHC's board of directors resolved to increase its capital by issuing new shares and reserved 15% of the new shares for the subscription by the employees of ESFHC and its subsidiaries. The Bank recognized \$199,279 thousand, the fair value of the options on the grant date, under salary expenses for share-based payment and under capital surplus for the year ended December 31, 2017.

Under the Articles of Incorporation of ESFHC, the employees of ESFHC's subsidiaries could be included in the distribution of employees' compensation. Thus, the Bank recognized the estimated distribution of shares to the Bank's employees under both salary expenses and capital surplus at \$370,239 thousand and \$344,676 thousand for the years ended December 31, 2017 and 2016, respectively. Material differences between the estimated amounts and the amounts approved by ESFHC's board of directors before the date the annual consolidated financial statements are authorized for issue are adjusted in the year which the amounts is recognized. If there is a change in the approved amounts after the annual consolidated financial statements were authorized for issue, the differences are recognized in the next fiscal year as a change in accounting estimate. The distributions of employees' stock compensation of 2016 and 2015 approved by the ESFHC's board of directors to the Bank's employees was \$345,844 thousand and \$337,064 thousand respectively under salary expenses and capital surplus. The differences resulted from a change in the accounting estimate was adjusted in profit or loss for the years ended December 31, 2017 and 2016.

Under related regulations, capital surplus must be used to offset deficit except capital surplus arising from the issuance of shares (issuance in excess of par value, capital surplus from issuance of common stock for combination and treasury stock transactions) and donation may be used to distribute cash dividends or transfer to common stock. However, any capital surplus transferred to common stock should be within a certain percentage of paid-in capital prescribed by law.

Under related regulations, capital surplus arising from equity investments under the equity method should not be distributed for any purpose.

c. Special reserve

Under FSC guidelines, the Bank reclassified the trading loss reserve of \$83,866 thousand accrued until December 31, 2010 to special reserve. This special reserve must be used to offset deficit except if the Bank has no deficit and the special reserve exceeds 50% of the Bank's paid-in capital, half of the excess may be used to issue new shares. Furthermore, when the special reserve exceeds the Bank's paid-in capital, the Bank may, under the FSC's approval, reclassify the excess back to unappropriated earnings.

According to Ref. No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Bank is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology. As of December 31, 2017, the special reserve, which amounted to \$65,281 thousand, had been appropriated under the stipulation.

d. Appropriation of earnings

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. The Bank made consequential amendments to the Bank's Articles of Incorporation on January 8, 2016. For information about the accrual basis of the employees' compensation and remuneration of directors and the actual distributions, please refer to Note 31.

Under the Bank's amended Articles of Incorporation, where the Bank made profit in a fiscal year, the profit shall be first utilized for paying all taxes, offsetting deficit of previous years, setting aside a legal reserve and special reserve in accordance with related regulations, setting aside a special reserve if needed, and then any remaining profit together with reversal of special reserve and prior years' unappropriated earnings, the board of directors shall draw up the appropriation of earnings motion for the approval of stockholders.

Under the Bank's dividend policy, the issuance of stock dividends takes precedence over the payment of cash dividends to strengthen the Bank's financial structure. This policy is also intended to improve the Bank's capital adequacy ratio and keep it at a level higher than the ratio set under relevant regulations. When dividends are declared, cash dividends must be at least 10% of total dividends declared, unless the resulting cash dividend per share falls below NT\$0.1. However, cash dividends should not be more than 15% of paid-in capital if legal reserve is less than the total paid-in capital.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve should only be used to offset deficit. When the reserve exceeds 25% of the Bank's paid-in capital, the excess may be used to issue new shares or distribute cash dividends. In addition, the Banking Law limits the appropriation of cash dividends to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be waived.

Under related regulations, a special reserve is appropriated from the balance of the retained earnings at an amount from the net income and unappropriated earnings that is equal to the debit balance of accounts in the stockholders' equity section (such as exchange differences on the translation of financial statements of foreign operations and unrealized gains or losses on available-for-sale financial assets). The special reserve should be appropriated from the prior years' unappropriated earnings to the extent of the debit balance accumulated from prior years and such special reserve should not be appropriated. Afterward, if there is any reversal of the decrease in other stockholders' equity, the Bank is allowed to appropriating retained earnings from the reversal amount.

The imputation credits for stockholders are calculated on the creditable ratio on the date of dividend distribution.

The appropriations of the earnings for 2016 and 2015 approved in the stockholders' meetings on April 28, 2017 and April 27, 2016, respectively, were as follows:

|                 | <b>Appropriation of Earnings</b> |              | <b>Dividends Per Share (NT\$)</b> |             |
|-----------------|----------------------------------|--------------|-----------------------------------|-------------|
|                 | <b>2016</b>                      | <b>2015</b>  | <b>2016</b>                       | <b>2015</b> |
| Legal reserve   | \$ 3,916,851                     | \$ 3,517,203 |                                   |             |
| Special reserve | 65,281                           | -            |                                   |             |
| Cash dividends  | 4,619,000                        | 2,854,268    | \$0.636                           | \$0.424     |
| Stock dividends | 4,452,170                        | 5,347,000    | 0.613                             | 0.795       |

The appropriation of earnings for 2017 had been proposed by the Bank's board of directors on March 16, 2018. The appropriation and dividends per share were as follows:

|                 | <b>Appropriation of Earnings</b> | <b>Dividends Per Share (NT\$)</b> |
|-----------------|----------------------------------|-----------------------------------|
| Legal reserve   | \$ 4,202,001                     |                                   |
| Special reserve | 70,033                           |                                   |
| Cash dividends  | 6,476,157                        | \$0.78                            |
| Share dividends | 3,249,000                        | 0.39                              |

The appropriation of earnings for 2017 are subject to the resolution of the stockholders' meeting. Information on earnings appropriation or deficit offsetting is available at the website of the Taiwan Stock Exchange (<http://emops.tse.com.tw>).

e. Non-controlling interests

|                                                                                         | <b>For the Year Ended December 31</b> |                   |
|-----------------------------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                                         | <b>2017</b>                           | <b>2016</b>       |
| Balance, January 1                                                                      | \$ 663,639                            | \$ 733,792        |
| Addition on acquisition of BankPro                                                      | -                                     | 104,206           |
| Cash dividends distributed by subsidiary                                                | (9,315)                               | (8,125)           |
| Acquisition of non-controlling interests of UCB (Note 44)                               | (404,619)                             | -                 |
| Attributable to non-controlling interests:                                              |                                       |                   |
| Net loss                                                                                | (101,268)                             | (151,241)         |
| Exchange differences on the translation of financial statement<br>of foreign operations | (35,546)                              | (13,900)          |
| Unrealized gains (losses) on available-for-sale financial assets                        | 404                                   | (18)              |
| Remeasurement of defined benefit plans                                                  | (64)                                  | (1,075)           |
| Balance, December 31                                                                    | <u>\$ 113,231</u>                     | <u>\$ 663,639</u> |

**35. RELATED-PARTY TRANSACTIONS**

E.SUN Financial Holding Company, Ltd. (ESFHC) is the parent company of the Bank and the ultimate controller of the E.SUN Group. All transactions, balances, income and expenses between the Bank and the subsidiaries (related parties of the Bank) are eliminated on a consolidated basis. In addition to those mentioned in Table 2 and in other notes, the significant related-party transactions are summarized as follows:

a. Related parties

| <u>Related Party</u>                                                                                                                         | <u>Relationship with the Company</u>                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------|
| E.SUN Financial Holding Company, Ltd. (ESFHC)                                                                                                | Parent company                                                                            |
| E.SUN Securities Co., Ltd. (E.SUN Securities),<br>E.SUN Venture Capital Co., Ltd. (ESVC) and<br>E.SUN Securities Investment Consulting Corp. | Sister companies                                                                          |
| E.SUN Foundation and E.SUN Volunteer & Social<br>Welfare Foundation                                                                          | One third of the funds are donated by the Bank                                            |
| Others                                                                                                                                       | Key management of the parent company<br>(ESFHC) and the Bank and other related<br>parties |

b. Significant transactions between the Company and related parties

1) Loans

|                                                | <b>Highest<br/>Balance (Note)</b> | <b>Ending<br/>Balance</b> | <b>Interest<br/>Revenue</b> | <b>Interest Rate<br/>(%)</b> |
|------------------------------------------------|-----------------------------------|---------------------------|-----------------------------|------------------------------|
| For the year ended<br><u>December 31, 2017</u> |                                   |                           |                             |                              |
| Sister companies                               | \$ 479,500                        | \$ -                      | \$ 20                       |                              |
| Key management                                 | 247,834                           | 221,070                   | 2,861                       |                              |
| Others                                         | <u>2,106,260</u>                  | <u>1,967,374</u>          | <u>27,200</u>               |                              |
|                                                | <u>\$ 2,833,594</u>               | <u>\$ 2,188,444</u>       | <u>\$ 30,081</u>            | 1.38-2.10                    |

|                                                | <b>Highest<br/>Balance (Note)</b> | <b>Ending<br/>Balance</b> | <b>Interest<br/>Revenue</b> | <b>Interest Rate<br/>(%)</b> |
|------------------------------------------------|-----------------------------------|---------------------------|-----------------------------|------------------------------|
| For the year ended<br><u>December 31, 2016</u> |                                   |                           |                             |                              |
| Sister companies                               | \$ 281,400                        | \$ -                      | \$ 14                       |                              |
| Key management                                 | 195,468                           | 153,207                   | 2,524                       |                              |
| Others                                         | <u>1,855,180</u>                  | <u>1,714,313</u>          | <u>23,326</u>               |                              |
|                                                | <u>\$ 2,332,048</u>               | <u>\$ 1,867,520</u>       | <u>\$ 25,864</u>            | 1.29-2.24                    |

2) Deposits

|                                                | <b>Highest<br/>Balance (Note)</b> | <b>Ending<br/>Balance</b> | <b>Interest<br/>Expense</b> | <b>Interest Rate<br/>(%)</b> |
|------------------------------------------------|-----------------------------------|---------------------------|-----------------------------|------------------------------|
| For the year ended<br><u>December 31, 2017</u> |                                   |                           |                             |                              |
| ESFHC                                          | \$ 15,565,947                     | \$ 120,902                | \$ 1,790                    |                              |
| Sister companies                               | 3,813,992                         | 1,748,078                 | 10,465                      |                              |
| Key management                                 | 1,151,377                         | 477,484                   | 1,741                       |                              |
| Others                                         | <u>2,241,450</u>                  | <u>1,077,443</u>          | <u>13,879</u>               |                              |
|                                                | <u>\$ 22,772,766</u>              | <u>\$ 3,423,907</u>       | <u>\$ 27,875</u>            | 0-6.62                       |

For the year ended  
December 31, 2016

|                  |                     |                     |                  |        |
|------------------|---------------------|---------------------|------------------|--------|
| ESFHC            | \$ 4,709,130        | \$ 1,378,818        | \$ 1,113         |        |
| Sister companies | 2,399,596           | 2,023,318           | 9,634            |        |
| Key management   | 601,643             | 410,681             | 1,982            |        |
| Others           | <u>1,492,232</u>    | <u>937,331</u>      | <u>13,009</u>    |        |
|                  | <u>\$ 9,202,601</u> | <u>\$ 4,750,148</u> | <u>\$ 25,738</u> | 0-6.76 |

Note: The sum of the respective highest balances of each account for the years ended December 31, 2017 and 2016.

|                                              | <b>December 31</b> |                 |
|----------------------------------------------|--------------------|-----------------|
|                                              | <b>2017</b>        | <b>2016</b>     |
| 3) Account receivable (part of receivables)  |                    |                 |
| Sister companies                             | <u>\$ 41,475</u>   | <u>\$ -</u>     |
| 4) Interest receivable (part of receivables) |                    |                 |
| Key management                               | \$ 105             | \$ 82           |
| Others                                       | <u>1,256</u>       | <u>1,035</u>    |
|                                              | <u>\$ 1,361</u>    | <u>\$ 1,117</u> |

|                                                                        | <b>December 31</b>  |                     |
|------------------------------------------------------------------------|---------------------|---------------------|
|                                                                        | <b>2017</b>         | <b>2016</b>         |
| 5) Refundable deposit (part of other assets)                           |                     |                     |
| Sister companies                                                       | <u>\$ 1,086</u>     | <u>\$ 1,086</u>     |
| 6) Prepaid expense (part of other assets)                              |                     |                     |
| Sister companies                                                       | <u>\$ 2,423</u>     | <u>\$ 2,423</u>     |
| 7) Accounts payable (part of payables)                                 |                     |                     |
| Sister companies                                                       | <u>\$ 15,626</u>    | <u>\$ -</u>         |
| 8) Interest payable (part of payables)                                 |                     |                     |
| ESFHC                                                                  | \$ -                | \$ 10               |
| Sister companies                                                       | 576                 | 613                 |
| Key management                                                         | 275                 | 221                 |
| Others                                                                 | <u>1,127</u>        | <u>1,031</u>        |
|                                                                        | <u>\$ 1,978</u>     | <u>\$ 1,875</u>     |
| 9) Remuneration of directors (part of payables)                        |                     |                     |
| ESFHC                                                                  | <u>\$ 86,000</u>    | <u>\$ 80,000</u>    |
| 10) Consolidated tax return payables (part of current tax liabilities) |                     |                     |
| ESFHC                                                                  | <u>\$ 1,202,813</u> | <u>\$ 1,117,741</u> |
| 11) Guarantee deposits received (part of other financial liabilities)  |                     |                     |
| ESFHC                                                                  | \$ 1,472            | \$ 1,472            |
| Sister companies                                                       | <u>2,594</u>        | <u>2,386</u>        |
|                                                                        | <u>\$ 4,066</u>     | <u>\$ 3,858</u>     |
| 12) Unearned revenue (part of other liabilities)                       |                     |                     |
| ESFHC                                                                  | \$ 505              | \$ 505              |
| Sister companies                                                       | <u>1,075</u>        | <u>720</u>          |
|                                                                        | <u>\$ 1,580</u>     | <u>\$ 1,225</u>     |

The Bank's parent company, ESFHC, has filed consolidated corporate tax returns, i.e., including the Bank's income tax return, from 2003, as allowed by certain tax regulations.

|                                                                                | <u>For the Year Ended December 31</u> |                  |
|--------------------------------------------------------------------------------|---------------------------------------|------------------|
|                                                                                | 2017                                  | 2016             |
| 13) Service fee income (part of service fee income, net)                       |                                       |                  |
| ESFHC                                                                          | \$ <u>28</u>                          | \$ <u>23</u>     |
| 14) Rental revenue (part of other noninterest gains, net)                      |                                       |                  |
| ESFHC                                                                          | \$ 6,203                              | \$ 6,203         |
| Sister companies                                                               | <u>9,462</u>                          | <u>9,599</u>     |
|                                                                                | <u>\$ 15,665</u>                      | <u>\$ 15,802</u> |
| 15) Rental income from operating assets (part of other noninterest gains, net) |                                       |                  |
| ESFHC                                                                          | \$ 107                                | \$ 93            |
| Sister companies                                                               | <u>4,185</u>                          | <u>3,641</u>     |
|                                                                                | <u>\$ 4,292</u>                       | <u>\$ 3,734</u>  |
| 16) Donation (part of general and administrative expenses)                     |                                       |                  |
| E.SUN Volunteer & Social Welfare Foundation                                    | <u>\$ 45,302</u>                      | <u>\$ 50,362</u> |
| 17) Others (part of employee benefits and general and administrative expenses) |                                       |                  |
| ESFHC                                                                          | \$ 86,000                             | \$ 71,000        |
| Sister companies                                                               | <u>14,539</u>                         | <u>14,539</u>    |
|                                                                                | <u>\$ 100,539</u>                     | <u>\$ 85,539</u> |

The above donation is for E.SUN Volunteer & Social Welfare Foundation's social welfare charity.

18) Directors as credit guarantors

|                   | <b>Amount</b>    | <b>Interest Rate<br/>(%)</b> | <b>Rate of<br/>Guarantee<br/>Service Fee (%)</b> |
|-------------------|------------------|------------------------------|--------------------------------------------------|
| December 31, 2017 | \$ <u>-</u>      | -                            | -                                                |
| December 31, 2016 | \$ <u>11,000</u> | 1.38                         | -                                                |

19) In August 2012, E.SUN Volunteer & Social Welfare Foundation entrusted some properties to the Bank. The Bank charged \$167 thousand and \$209 thousand (part of service fee income, net) accordingly for the years ended December 31, 2017 and 2016, respectively.

The Bank has operating lease contracts with related parties, which cover certain office spaces within the Bank's building. The monthly or quarterly rentals, which had been prepaid by the lessees, were based on rentals for buildings near the Bank.

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates for saving deposits given to managers of the Bank are the same as the interest rates of employees' savings deposits within a certain amount.

Under the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

c. Compensation of key management

The compensation of the directors and other key management for the years ended December 31, 2017 and 2016 are summarized as follows:

|                                                                                   | <b>For the Year Ended December 31</b> |                   |
|-----------------------------------------------------------------------------------|---------------------------------------|-------------------|
|                                                                                   | <b>2017</b>                           | <b>2016</b>       |
| Salaries and other short-term employment benefits                                 | \$ 258,977                            | \$ 196,868        |
| Post-employment benefits                                                          | 2,203                                 | 1,448             |
| Interest arising from the employees' preferential rates in excess of normal rates | <u>661</u>                            | <u>506</u>        |
|                                                                                   | <u>\$ 261,841</u>                     | <u>\$ 198,822</u> |

### 36. PLEDGED ASSETS

a. In addition to those mentioned in other notes, pledged assets were as follows:

|                                                                    | <b>December 31</b>   |                      |
|--------------------------------------------------------------------|----------------------|----------------------|
|                                                                    | <b>2017</b>          | <b>2016</b>          |
| Financial assets at fair value through profit or loss (face value) | \$ 24,200,000        | \$ 25,000,000        |
| Held-to-maturity financial assets (face value)                     | 1,351,950            | 1,537,567            |
| Available-for-sale financial assets (face value)                   | 1,173,454            | 2,763,840            |
| Receivables (face value)                                           | <u>-</u>             | <u>3,200</u>         |
|                                                                    | <u>\$ 26,725,404</u> | <u>\$ 29,304,607</u> |

As of December 31, 2017 and 2016, the foregoing bonds and securities, with aggregate face value of \$19,200,000 thousand and \$20,000,000 thousand, respectively, had been provided as collaterals for day-term overdraft to comply with the clearing system requirement of the Central Bank (CB) of the Republic of China for real-time gross settlement (RTGS). The unused overdraft amount at day's end can also be treated as the Bank's liquidity reserve. For covering its call loans from the CB, the Bank had provided collaterals consisting of securities with aggregate face values of \$5,000,000 thousand as of December 31, 2017 and 2016. It had also provided other securities as collaterals for operating reserve and for meeting the requirements for judiciary provisional seizure.

- b. To expand its capital sourcing and enhance its liquidity position, the Bank's Los Angeles Branch obtained access privileges at the Discount Window of the Federal Reserve Bank of San Francisco. For this access, the Branch pledged the following assets:

(In Thousands of U.S. Dollars)

| Date              | Outstanding<br>Loan Balance | Collateral<br>Value |
|-------------------|-----------------------------|---------------------|
| December 31, 2017 | <u>\$ 35,860</u>            | <u>\$ 23,816</u>    |
| December 31, 2016 | <u>\$ 33,000</u>            | <u>\$ 24,756</u>    |

### 37. CONTINGENCIES AND COMMITMENTS

In addition to those mentioned in other notes, the contingencies and commitments were as follows:

a. E.SUN Bank

- 1) Lease agreements on premises occupied by the Bank's branches are operating lease. Rentals are calculated on the basis of the leased areas and are payable monthly, quarterly or semiannually. As of December 31, 2017, refundable deposits on these leases totaled \$891,252 thousand (part of refundable deposits). Minimum future annual rentals were as follows:

|                        | <u>December 31</u>  |                     |
|------------------------|---------------------|---------------------|
|                        | 2017                | 2016                |
| Within one year        | \$ 883,030          | \$ 837,260          |
| Over one to five years | 1,957,136           | 1,993,659           |
| Over five years        | <u>25,766</u>       | <u>758,108</u>      |
|                        | <u>\$ 2,865,932</u> | <u>\$ 3,589,027</u> |

The lease payments recognized as expenses were as follows:

|                        | <u>For the Year Ended December 31</u> |                   |
|------------------------|---------------------------------------|-------------------|
|                        | 2017                                  | 2016              |
| Minimum lease payments | \$ 733,244                            | \$ 679,341        |
| Contingent rentals     | <u>238</u>                            | <u>1,243</u>      |
|                        | <u>\$ 733,482</u>                     | <u>\$ 680,584</u> |

- 2) Lease agreements on investment properties owned by the Bank and rent to others are operating lease. Rentals are calculated on the basis of the leased areas and are receivable monthly, quarterly or semiannually. The lessees have no preemptive rights to buy properties at the end of the lease agreements. As of December 31, 2017, refundable deposits on these leases totaled \$4,903 thousand (part of guarantee deposits received). Minimum future annual rentals were as follows:

|                        | <u>December 31</u> |                  |
|------------------------|--------------------|------------------|
|                        | 2017               | 2016             |
| Within one year        | \$ 18,136          | \$ 19,051        |
| Over one to five years | <u>33,061</u>      | <u>41,969</u>    |
|                        | <u>\$ 51,197</u>   | <u>\$ 61,020</u> |

- 3) Agreements on the acquisition and decoration of buildings and various purchases related to the improvements of existing premises occupied by the Bank's branches amounted to approximately \$1,282,139 thousand. As of December 31, 2017, the remaining unpaid amount was approximately \$756,712 thousand.

b. Union Commercial Bank (UCB)

- 1) Lease agreements on premises occupied by UCB are operating lease. As of December 31, 2017, refundable deposits on these leases totaled \$12,609 thousand. Minimum future annual rentals were as follows:

|                        | <b>December 31</b> |                  |
|------------------------|--------------------|------------------|
|                        | <b>2017</b>        | <b>2016</b>      |
| Within one year        | \$ 15,419          | \$ 16,835        |
| Over one to five years | 20,746             | 60,065           |
| Over five years        | <u>63,636</u>      | <u>20,950</u>    |
|                        | <u>\$ 99,801</u>   | <u>\$ 97,850</u> |

- 2) Decoration of buildings and various purchases related to the improvements of existing premises occupied by UCB amounted to approximately \$732,003 thousand. As of December 31, 2017, the remaining unpaid amount was approximately \$211,557 thousand.

c. E.SUN Bank (China), Ltd. (ESBC)

- 1) Lease agreements on premises occupied by ESBC are operating lease. As of December 31, 2017, refundable deposits on these leases totaled \$28,321 thousand. Minimum future annual rentals were as follows:

|                        | <b>December 31</b> |                   |
|------------------------|--------------------|-------------------|
|                        | <b>2017</b>        | <b>2016</b>       |
| Within one year        | \$ 120,438         | \$ 163,030        |
| Over one to five years | 292,746            | 390,168           |
| Over five years        | <u>218,121</u>     | <u>237,564</u>    |
|                        | <u>\$ 631,305</u>  | <u>\$ 790,762</u> |

- 2) Lease agreements on investment properties owned by ESBC and rent to others are operating lease. Rentals are calculated on the basis of the leased areas and are receivable monthly. The lessees have no preemptive rights to buy properties at the end of the lease agreements. As of December 31, 2017, refundable deposits on these leases totaled \$11,219 thousand. Minimum future annual rentals were as follows:

|                        | <b>December 31,<br/>2017</b> |
|------------------------|------------------------------|
| Within one year        | \$ 42,073                    |
| Over one to five years | 270,982                      |
| Over five years        | <u>154,811</u>               |
|                        | <u>\$ 467,866</u>            |

- d. Lease agreements on premises occupied by BankPro are operating lease. As of December 31, 2017, refundable deposits on these leases totaled \$2,835 thousand. Minimum future annual rentals were as follows:

|                        | <u>December 31</u> |                  |
|------------------------|--------------------|------------------|
|                        | <u>2017</u>        | <u>2016</u>      |
| Within one year        | \$ 2,327           | \$ 9,307         |
| Over one to five years | <u>-</u>           | <u>3,102</u>     |
|                        | <u>\$ 2,327</u>    | <u>\$ 12,409</u> |

### 38. THE BANK'S AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance was calculated at the daily average balances of interest-earning assets and interest-bearing liabilities.

|                                                                             | <u>For the Year Ended December 31</u> |                             |                            |                             |
|-----------------------------------------------------------------------------|---------------------------------------|-----------------------------|----------------------------|-----------------------------|
|                                                                             | <u>2017</u>                           |                             | <u>2016</u>                |                             |
|                                                                             | <u>Average<br/>Balance</u>            | <u>Average<br/>Rate (%)</u> | <u>Average<br/>Balance</u> | <u>Average<br/>Rate (%)</u> |
| <u>Interest-earning assets</u>                                              |                                       |                             |                            |                             |
| Cash and cash equivalents and other financial assets - due from banks       | \$ 33,091,645                         | 2.10                        | \$ 39,844,265              | 2.36                        |
| Call loans to banks                                                         | 18,723,291                            | 1.42                        | 10,171,982                 | 0.74                        |
| Due from the Central Bank                                                   | 37,493,521                            | 0.33                        | 36,515,257                 | 0.36                        |
| Held-for-trading financial assets - bonds                                   | 8,045                                 | 2.35                        | 1,674,082                  | 3.35                        |
| Held-for-trading financial assets - bills                                   | 274,604,774                           | 0.53                        | 273,102,409                | 0.54                        |
| Financial assets designated as at fair value through profit or loss - bonds | 104,419,547                           | 4.03                        | 99,493,783                 | 3.37                        |
| Securities purchased under resell agreements                                | 24,967                                | 2.28                        | 602,251                    | 1.85                        |
| Accounts receivable factored without recourse                               | 8,551,049                             | 2.05                        | 9,239,972                  | 2.35                        |
| Discounts and loans                                                         | 1,158,314,793                         | 2.13                        | 1,039,083,500              | 2.13                        |
| Receivables on credit cards                                                 | 26,008,972                            | 7.55                        | 23,474,219                 | 7.38                        |
| Available-for-sale financial assets - bonds                                 | 149,172,631                           | 2.01                        | 127,152,821                | 1.93                        |
| Held-to-maturity financial assets                                           | 2,036,053                             | 1.31                        | 4,599,937                  | 1.67                        |
| Debt instruments with no active market                                      | 1,054,084                             | 4.23                        | 1,262,056                  | 4.16                        |
| <u>Interest-bearing liabilities</u>                                         |                                       |                             |                            |                             |
| Due to the Central Bank and other banks                                     | 77,164,222                            | 1.35                        | 73,068,765                 | 1.15                        |
| Financial liabilities at fair value through profit or loss                  | 32,815,088                            | 4.96                        | 33,856,974                 | 4.80                        |
| Securities sold under repurchase agreements                                 | 12,034,384                            | 1.49                        | 6,834,695                  | 1.38                        |
| Demand deposits                                                             | 430,230,545                           | 0.14                        | 411,269,563                | 0.16                        |

(Continued)

|                                     | <b>For the Year Ended December 31</b> |                             |                            |                             |
|-------------------------------------|---------------------------------------|-----------------------------|----------------------------|-----------------------------|
|                                     | <b>2017</b>                           |                             | <b>2016</b>                |                             |
|                                     | <b>Average<br/>Balance</b>            | <b>Average<br/>Rate (%)</b> | <b>Average<br/>Balance</b> | <b>Average<br/>Rate (%)</b> |
| Savings - demand deposits           | \$ 482,632,186                        | 0.20                        | \$ 448,990,458             | 0.24                        |
| Time deposits                       | 406,098,117                           | 1.40                        | 333,509,091                | 1.17                        |
| Savings - time deposits             | 270,375,857                           | 1.05                        | 267,524,611                | 1.17                        |
| Negotiable certificates of deposits | 2,655,807                             | 0.92                        | 1,824,761                  | 0.46                        |
| Bank debentures                     | 39,304,795                            | 1.82                        | 44,001,909                 | 1.85                        |
| Principal of structured products    | 6,462,035                             | 1.61                        | 3,279,728                  | 0.88                        |

(Concluded)

### 39. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments that are not measured at fair value

Except as detailed in the following table, the management considered the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured.

|                                        | <b>December 31</b>         |                                 |                            |                                 |
|----------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
|                                        | <b>2017</b>                |                                 | <b>2016</b>                |                                 |
|                                        | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> | <b>Carrying<br/>Amount</b> | <b>Estimated<br/>Fair Value</b> |
| <u>Financial assets</u>                |                            |                                 |                            |                                 |
| Held-to-maturity financial assets      | \$ 3,078,813               | \$ 2,960,498                    | \$ 3,616,960               | \$ 3,616,072                    |
| Debt instruments with no active market | 596,960                    | 667,353                         | 1,291,160                  | 1,295,901                       |
| <u>Financial liabilities</u>           |                            |                                 |                            |                                 |
| Bank debentures                        | 36,750,000                 | 37,598,007                      | 42,250,000                 | 43,144,233                      |

The hierarchies of the fair value measured above were as follows:

#### Fair value hierarchy as of December 31, 2017

|                                        | <b>Total</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|----------------------------------------|--------------|----------------|----------------|----------------|
| <u>Financial assets</u>                |              |                |                |                |
| Held-to-maturity financial assets      | \$ 2,960,498 | \$ 2,960,498   | -              | -              |
| Debt instruments with no active market | 667,353      | -              | 667,353        | -              |
| <u>Financial liabilities</u>           |              |                |                |                |
| Bank debentures                        | 37,598,007   | -              | 37,598,007     | -              |

Fair value hierarchy as of December 31, 2016

|                                        | <b>Total</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|----------------------------------------|--------------|----------------|----------------|----------------|
| <u>Financial assets</u>                |              |                |                |                |
| Held-to-maturity financial assets      | \$ 3,616,072 | \$ 3,263,778   | \$ 352,294     | \$ -           |
| Debt instruments with no active market | 1,295,901    | -              | 1,295,901      | -              |
| <u>Financial liabilities</u>           |              |                |                |                |
| Bank debentures                        | 43,144,233   | -              | 43,144,233     | -              |

The fair values of the financial assets and financial liabilities included in the Level 2 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis.

- b. The valuation techniques and assumptions the Company uses for determining fair values are as follows:

The fair values of financial assets and financial liabilities traded on active markets are determined with reference to quoted market prices. When market prices are not available, valuation techniques are applied. The financial data obtained by the Company for making estimations and assumptions for financial instrument valuation is consistent with those used by other market participants to price financial instruments.

The Company estimated the fair value of each forward contract on the basis of the exchange rates quoted by Reuters on each settlement date. Fair values of interest rate swap contracts and cross-currency swap contracts are calculated using the discounted cash flow method, unless the fair values of these two types of contracts are provided by counterparties. Fair values of currency option contracts are based on estimates made using the Black Scholes model, binomial method or Monte Carlo simulation. The fair values of futures contracts are calculated using the prices quoted by the futures exchange.

For valuation of debt instruments with no active market, the fair value is determined on the basis of the discounted cash flow method. The Company uses a discount rate approximating the rate of return of financial instruments with similar terms and characteristics, including the credit risk of the debtors, the residual period during which the fixed interest rate prescribed by contracts is accrued, the residual period for principal repayments, and the type of currency (New Taiwan dollar, U.S. dollar, etc.) to be used for payments. As of December 31, 2017 and 2016, the discount rates used ranged from 0.184% to 1.655% and from 0.174% to 1.870%, respectively, for the New Taiwan dollar and from 1.400% to 2.531% and from 0.670% to 2.602%, respectively, for the U.S. dollar.

If there are trade prices or prices quoted by major market players, the latest trade prices and quoted prices are used as the basis for evaluating the fair value of debt instruments with no active market, which are classified as other financial assets; otherwise, the Company uses the foregoing valuation techniques to determine fair value.

- c. The fair value hierarchies of the Company's financial instruments, which were measured at fair value on a recurring basis, as of December 31, 2017 and 2016 were as follows:

|                                                                     | <b>December 31, 2017</b> |                |                |                |
|---------------------------------------------------------------------|--------------------------|----------------|----------------|----------------|
|                                                                     | <b>Total</b>             | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <u>Nonderivative financial instruments</u>                          |                          |                |                |                |
| <u>Assets</u>                                                       |                          |                |                |                |
| Financial assets at fair value through profit or loss               |                          |                |                |                |
| Held-for-trading financial assets                                   |                          |                |                |                |
| Stocks                                                              | \$ 267,693               | \$ 267,693     | \$ -           | \$ -           |
| Debt instruments                                                    | 88,659                   | 88,659         | -              | -              |
| Others                                                              | 291,929,286              | -              | 291,929,286    | -              |
| Financial assets designated as at fair value through profit or loss |                          |                |                |                |
| Available-for-sale financial assets                                 | 110,410,567              | 2,449,946      | 107,960,621    | -              |
| Stocks                                                              | 6,089,816                | 6,089,816      | -              | -              |
| Debt instruments                                                    | 164,114,822              | 130,456,416    | 33,658,406     | -              |
| <u>Liabilities</u>                                                  |                          |                |                |                |
| Financial liabilities at fair value through profit or loss          |                          |                |                |                |
|                                                                     | 38,059,418               | -              | 38,059,418     | -              |
| <u>Derivative financial instruments</u>                             |                          |                |                |                |
| <u>Assets</u>                                                       |                          |                |                |                |
| Financial assets at fair value through profit or loss               |                          |                |                |                |
|                                                                     | 5,274,256                | 35,563         | 5,238,693      | -              |
| <u>Liabilities</u>                                                  |                          |                |                |                |
| Financial liabilities at fair value through profit or loss          |                          |                |                |                |
|                                                                     | 5,300,429                | -              | 5,300,429      | -              |
|                                                                     | <b>December 31, 2016</b> |                |                |                |
|                                                                     | <b>Total</b>             | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
| <u>Nonderivative financial instruments</u>                          |                          |                |                |                |
| <u>Assets</u>                                                       |                          |                |                |                |
| Financial assets at fair value through profit or loss               |                          |                |                |                |
| Held-for-trading financial assets                                   |                          |                |                |                |
| Stocks                                                              | \$ 331,154               | \$ 331,154     | \$ -           | \$ -           |
| Others                                                              | 253,172,081              | -              | 253,172,081    | -              |
| Financial assets designated as at fair value through profit or loss |                          |                |                |                |
| Available-for-sale financial assets                                 | 103,473,764              | 11,137,503     | 92,336,261     | -              |
| Stocks                                                              | 4,500,377                | 4,500,377      | -              | -              |
| Debt instruments                                                    | 134,748,590              | 95,437,414     | 39,311,176     | -              |
| Others                                                              | 1,850,316                | -              | 1,850,316      | -              |
| <u>Liabilities</u>                                                  |                          |                |                |                |
| Financial liabilities at fair value through profit or loss          |                          |                |                |                |
|                                                                     | 33,425,677               | -              | 33,425,677     | -              |

(Continued)

|                                                            | <b>December 31, 2016</b> |           |              |             |
|------------------------------------------------------------|--------------------------|-----------|--------------|-------------|
|                                                            | Total                    | Level 1   | Level 2      | Level 3     |
| <u>Derivative financial instruments</u>                    |                          |           |              |             |
| <u>Assets</u>                                              |                          |           |              |             |
| Financial assets at fair value through profit or loss      | \$ 9,100,138             | \$ 57,132 | \$ 9,043,006 | \$ -        |
| <u>Liabilities</u>                                         |                          |           |              |             |
| Financial liabilities at fair value through profit or loss | 8,666,026                | -         | 8,666,026    | -           |
|                                                            |                          |           |              | (Concluded) |

- d. Other information on financial assets and liabilities in Level 3 for the year ended December 31, 2016 was as follows:

For the year ended December 31, 2016

| Items                               | Beginning Balance | Valuation Gains (Losses) |                               | Amount of Increase   |                     | Amount of Decrease |                       | Ending Balance |
|-------------------------------------|-------------------|--------------------------|-------------------------------|----------------------|---------------------|--------------------|-----------------------|----------------|
|                                     |                   | In Net Income            | In Other Comprehensive Income | Purchase or Issuance | Transfer to Level 3 | Sale or Disposal   | Transfer from Level 3 |                |
| <u>Assets</u>                       |                   |                          |                               |                      |                     |                    |                       |                |
| Available-for-sale financial assets | \$ 16,038         | \$ -                     | \$ -                          | \$ -                 | \$ -                | \$ 16,038          | \$ -                  | \$ -           |

- e. Information on financial liabilities designated as at fair value through profit or loss was as follows:

|                                                                     | <b>December 31</b>  |                                                                    |
|---------------------------------------------------------------------|---------------------|--------------------------------------------------------------------|
|                                                                     | 2017                | 2016                                                               |
| Difference between carrying amounts and the amounts due on maturity |                     |                                                                    |
| Fair value                                                          | \$ 38,059,418       | \$ 33,425,677                                                      |
| Amounts due on maturity                                             | <u>38,956,926</u>   | <u>34,931,749</u>                                                  |
|                                                                     | <u>\$ (897,508)</u> | <u>\$ (1,506,072)</u>                                              |
|                                                                     |                     | <b>Change in Fair Values Resulting from Credit Risk Variations</b> |
| Change in amount in the period                                      |                     |                                                                    |
| For the year ended December 31, 2017                                |                     | <u>\$ 42,931</u>                                                   |
| For the year ended December 31, 2016                                |                     | <u>\$ 46,523</u>                                                   |
| Accumulated amount of change                                        |                     |                                                                    |
| As of December 31, 2017                                             |                     | <u>\$ (1,857)</u>                                                  |
| As of December 31, 2016                                             |                     | <u>\$ (44,882)</u>                                                 |

The change in fair value of bank debentures and structured products resulting from credit risk variation is the difference between the total change in fair value and the change in fair value due to market risk variations of these financial instruments. The change in fair value resulting from market risk variations is calculated using the benchmark yield rate plus a fixed credit spread. The fair values of bank debentures and structured products are the present values of future cash flows discounted by the benchmark yield rate quoted in the market as of the balance sheet date plus the credit spread estimated using the interest rates of the debt issuers' borrowings with similar maturities.

f. Information on financial risk management

1) Risk management

The Bank established the risk management division to draw up the principles and policies of risk management to be followed by each department, to coordinate and monitor the enforcement of risk management policies of each department, and to deliberate whether proposals brought up by each risk-based unit to deal with a variety of issues are suitable for the Bank.

2) Credit risk

Credit risk refers to the Company's exposure to financial losses due to inability of customers or counterparties to meet the contractual obligations on financial instruments. Credit risk exists in both on- and off-balance sheet items. The on-balance sheet exposure to credit risks is mainly in loans and the credit card business, due from other banks, call loans to other banks, investment in debt instrument and derivatives. The off-balance sheet exposure to credit risks is mainly in financial guarantees, acceptance, letter of credits and loan commitments.

To ensure its credit risks fall within the acceptable range, the Company has stipulated in the Guidelines for Credit Risk Management that for all the products provided and businesses conducted, including all on- and off-balance sheet transactions in the banking and trading books, the Company should make a detailed analysis to identify existing and potential credit risks. Before launching new products or businesses, the Company ensures compliance with all applicable rules and regulations and identifies relevant credit risks. For sophisticated credit extensions, the Company also requires the use of a certain risk management system described in related rules and guidelines. The assessment of asset qualities and provision for possible losses of the overseas operating units, unless regulated by the local authorities, are in accordance with the Company's risk management policies and guidelines.

The measurement and management of credit risks from the Company's main businesses are as follows:

a) Loans and credit card business (including loan commitment and guarantees)

Credit assets are classified into five categories. In addition to normal credit assets that are classified as sound assets, the unsound assets are classified, on the basis of the valuation of collaterals and the length of time the payments become overdue, as special mention, substandard, with collectability high doubtful and uncollectable. The Company also set up policies for the management of doubtful credits and the collection of overdue debts to deal with collection problems.

For risk management purposes, the Company rates credit qualities (by using an internal rating model for credit risk, a credit score table, etc.) in accordance with the nature and scale of a business.

With the use of statistical method and judgment by experts, the Company has developed a credit rating model for clients. The Company reviews the model periodically to examine if the outcome matches reality and adjusts each parameter to optimize the result. Except the petit credit and residential mortgage, which are assessed by using the credit rating model, consumer loans are assessed individually for default risks.

The Company classifies the credit qualities of corporate loans as strong, medium and weak. The Company evaluates the credit rating of borrowers at least once a year. In addition, to ensure the estimates used are reasonable and to make sure the outcome calculated matches reality, the Company annually conducts validity test and back testing on the models using data on customers' actual defaults.

b) Due from and call loans to other banks

The Company evaluates the credit status of counterparties before deals are closed. The Company grants different limits to the counterparties based on their respective credit ratings as suggested by domestic and foreign credit rating institutes.

c) Investment in debt instruments and derivatives

The Company identifies and manages credit risks from debt instruments through the use of external credit ratings of the debt instruments along with the evaluation of credit qualities of bonds, regional conditions and counterparty risks.

The other banks with which the Company conducts derivative transactions are mostly considered investment grade. The Company monitors the credit limits (including lending limits) by counterparties. The credits extended to counterparties that are not rated as investment grade are assessed case by case. The credits extended to counterparties who are general customers are monitored in accordance with the related contract terms and conditions and the credit limits for derivatives established in normal credit granting processes.

The Company classifies the debt instruments and derivatives into different categories, which are mainly based on the credit ratings provided by external credit agencies (Moody's, S&P, Fitch or Taiwan Ratings).

The Company has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collaterals from the borrowers. To secure the debt, the Company manages and assesses the collaterals following the procedures that determine the scope of collateralization and valuation of collaterals and the process of disposition. In credit contracts, the Company stipulates the security mechanism for debts; the conditions and terms for collaterals; and the terms and conditions of offsetting to state clearly that the Company reserves the right to reduce the granted quota, to reduce the repayment period, to demand immediate settlement or to offset the debts of the borrowers by their deposits in the Company in order to reduce the credit risks. The requirements for collaterals for other non-credit businesses depend on the nature of the financial instruments. Asset-backed securities and similar financial instruments are required to provide a pool of underlying financial assets as collaterals.

To avoid the concentration of credit risks, the Company has included credit limits for a single counterparty and for a single group in its credit-related guidelines. The Company has also included credit limits for an individual (entity) and for related enterprises (group) in the guidelines for investment and regulations for risk control on equity investments. To manage the concentration risk on the assets, the Company set credit limits by industry, conglomerate, country, transactions collateralized by stocks, and other categories and integrated within one system the supervision of concentration of credit risk in these categories.

The Company settles most of its transactions at gross amounts. For further reduction of credit risks, settlement netting is used for some counterparties or some circumstances where the transactions with counterparties are terminated due to defaults.

The maximum exposures of assets on the consolidated balance sheets to credit risks without consideration of guarantees or other credit enforcement instruments approximate the assets' carrying amounts. The maximum exposures of off-balance sheet items to credit risks without consideration of guarantees or other credit enforcement instrument are stated as follows:

|                                         | <b>December 31</b> |                |
|-----------------------------------------|--------------------|----------------|
|                                         | <b>2017</b>        | <b>2016</b>    |
| Irrevocable loan commitments issued     | \$ 96,299,743      | \$ 108,392,752 |
| Credit card commitments                 | 357,259,135        | 334,179,541    |
| Letters of credit issued and yet unused | 9,527,165          | 9,769,959      |
| Other guarantees                        | 16,619,110         | 16,258,818     |

The maximum exposures of consolidated balance sheet items (recognized as financial assets), collateral, master netting arrangements and other credit enforcement instruments are as follows:

December 31, 2017

|                                                       | <b>Maximum Exposure to Credit Risk Mitigated by</b> |                                    |                                  |              |
|-------------------------------------------------------|-----------------------------------------------------|------------------------------------|----------------------------------|--------------|
|                                                       | <b>Collateral</b>                                   | <b>Master Netting Arrangements</b> | <b>Other Credit Enhancements</b> | <b>Total</b> |
| Financial assets at fair value through profit or loss |                                                     |                                    |                                  |              |
| Held-for-trading financial assets - derivatives       | \$ 1,796,421                                        | \$ 1,919,496                       | \$ -                             | \$ 3,715,917 |
| Receivables                                           |                                                     |                                    |                                  |              |
| Credit cards                                          | 8,501                                               | -                                  | -                                | 8,501        |
| Accounts receivable factored                          | -                                                   | -                                  | 2,799,928                        | 2,799,928    |
| Acceptances                                           | 522,093                                             | -                                  | -                                | 522,093      |
| Discounts and loans                                   | 900,105,246                                         | -                                  | -                                | 900,105,246  |

Off-balance sheet items

|                                         |            |   |   |            |
|-----------------------------------------|------------|---|---|------------|
| Irrevocable loan commitments issued     | 45,604,349 | - | - | 45,604,349 |
| Letters of credit issued and yet unused | 1,762,976  | - | - | 1,762,976  |
| Other guarantees                        | 7,761,705  | - | - | 7,761,705  |
| Credit card commitments                 | 57,221     | - | - | 57,221     |

December 31, 2016

|                                                       | <b>Maximum Exposure to Credit Risk Mitigated by</b> |                                    |                                  |              |
|-------------------------------------------------------|-----------------------------------------------------|------------------------------------|----------------------------------|--------------|
|                                                       | <b>Collateral</b>                                   | <b>Master Netting Arrangements</b> | <b>Other Credit Enhancements</b> | <b>Total</b> |
| Financial assets at fair value through profit or loss |                                                     |                                    |                                  |              |
| Held-for-trading financial assets - derivatives       | \$ 2,032,973                                        | \$ 4,340,857                       | \$ -                             | \$ 6,373,830 |
| Securities purchased under resell agreements          | 174,017                                             | -                                  | -                                | 174,017      |
| Receivables                                           |                                                     |                                    |                                  |              |
| Credit cards                                          | 6,762                                               | -                                  | -                                | 6,762        |
| Accounts receivable factored                          | -                                                   | -                                  | 1,326,048                        | 1,326,048    |
| Acceptances                                           | 415,474                                             | -                                  | -                                | 415,474      |
| Discounts and loans                                   | 819,348,956                                         | -                                  | -                                | 819,348,956  |

Off-balance sheet items

|                                         |            |   |   |            |
|-----------------------------------------|------------|---|---|------------|
| Irrevocable loan commitments issued     | 49,491,677 | - | - | 49,491,677 |
| Letters of credit issued and yet unused | 2,169,973  | - | - | 2,169,973  |
| Other guarantees                        | 6,657,668  | - | - | 6,657,668  |
| Credit card commitments                 | 131,566    | - | - | 131,566    |

The management of the Company believes its ability to minimize the credit risk exposures of the off-balance sheet items is mainly attributed to its rigorous evaluation of credit extended and the periodic reviews of these credits.

Concentration of credit risk exists when counterparties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. There are no transactions concentrating on individual client or trading counterpart. Group or industry, regions and collaterals that were 10% or more of total outstanding loans were as follows:

| <b>Credit Risk Profile by Group or Industry</b> | <b>December 31</b> |          |                |          |
|-------------------------------------------------|--------------------|----------|----------------|----------|
|                                                 | <b>2017</b>        |          | <b>2016</b>    |          |
|                                                 | <b>Amount</b>      | <b>%</b> | <b>Amount</b>  | <b>%</b> |
| Natural person                                  | \$ 594,148,968     | 48       | \$ 554,763,993 | 49       |
| Manufacturing                                   | 249,323,099        | 20       | 229,067,836    | 20       |
| Wholesale, retail and restaurants               | 126,482,725        | 10       | 113,556,830    | 10       |

| <b>Credit Risk Profile by Regions</b> | <b>December 31</b> |          |                |          |
|---------------------------------------|--------------------|----------|----------------|----------|
|                                       | <b>2017</b>        |          | <b>2016</b>    |          |
|                                       | <b>Amount</b>      | <b>%</b> | <b>Amount</b>  | <b>%</b> |
| Domestic                              | \$ 1,058,755,015   | 86       | \$ 986,540,905 | 87       |

| <b>Credit Risk Profile by Collaterals</b> | <b>December 31</b> |          |                |          |
|-------------------------------------------|--------------------|----------|----------------|----------|
|                                           | <b>2017</b>        |          | <b>2016</b>    |          |
|                                           | <b>Amount</b>      | <b>%</b> | <b>Amount</b>  | <b>%</b> |
| Unsecured                                 | \$ 334,576,667     | 27       | \$ 325,011,987 | 29       |
| Secured                                   |                    |          |                |          |
| Real estate                               | 785,800,905        | 64       | 711,642,885    | 63       |

Some financial assets held by the Company, such as cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, securities purchased under resell agreements and refundable deposits, are exposed to low credit risks because the counterparties have rather high credit ratings.

In addition to the above assets, credit quality analyses on other financial assets were as follows:

a) Credit quality analysis on discounts, loans and receivables

| December 31, 2017   | Neither Past Due Nor Impaired (A) | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Losses (D)   |                                          | Net (A)+(B)+(C)-(D) |
|---------------------|-----------------------------------|-------------------------------|--------------|-------------------|---------------------------------------|------------------------------------------|---------------------|
|                     |                                   |                               |              |                   | With Objective Evidence of Impairment | With No Objective Evidence of Impairment |                     |
| Receivables         |                                   |                               |              |                   |                                       |                                          |                     |
| Credit cards        | \$ 57,523,070                     | \$ 1,251,706                  | \$ 2,013,022 | \$ 60,787,798     | \$ 600,032                            | \$ 384,435                               | \$ 59,803,331       |
| Others              | 23,819,581                        | 38,128                        | 508,532      | 24,366,241        | 116,862                               | 922,852                                  | 23,326,527          |
| Discounts and loans | 1,212,221,079                     | 6,368,837                     | 8,003,836    | 1,226,593,752     | 2,821,909                             | 12,544,527                               | 1,211,227,316       |

| December 31, 2016   | Neither Past Due Nor Impaired (A) | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Losses (D)   |                                          | Net (A)+(B)+(C)-(D) |
|---------------------|-----------------------------------|-------------------------------|--------------|-------------------|---------------------------------------|------------------------------------------|---------------------|
|                     |                                   |                               |              |                   | With Objective Evidence of Impairment | With No Objective Evidence of Impairment |                     |
| Receivables         |                                   |                               |              |                   |                                       |                                          |                     |
| Credit cards        | \$ 52,386,852                     | \$ 1,513,193                  | \$ 1,835,029 | \$ 55,735,074     | \$ 568,648                            | \$ 674,668                               | \$ 54,491,758       |
| Others              | 21,434,076                        | 72,555                        | 603,313      | 22,109,944        | 139,456                               | 470,014                                  | 21,500,474          |
| Discounts and loans | 1,117,494,302                     | 7,058,405                     | 8,503,778    | 1,133,056,485     | 3,286,853                             | 11,443,301                               | 1,118,326,331       |

b) Credit quality analysis on discounts and loans neither past due nor impaired (based on credit ratings of clients)

| December 31, 2017    | Neither Past Due Nor Impaired |                |               |                  |
|----------------------|-------------------------------|----------------|---------------|------------------|
|                      | Strong                        | Medium         | Weak          | Total            |
| Consumer loans       |                               |                |               |                  |
| Residential mortgage | \$ 129,752,064                | \$ 146,714,413 | \$ 6,711,314  | \$ 283,177,791   |
| Petit credit         | 56,852,913                    | 33,454,930     | 2,725,889     | 93,033,732       |
| Others               | 96,677,813                    | 109,316,401    | 5,000,576     | 210,994,790      |
| Corporate loans      |                               |                |               |                  |
| Secured              | 148,880,172                   | 148,838,682    | 15,063,437    | 312,782,291      |
| Unsecured            | 212,837,167                   | 90,364,198     | 9,031,110     | 312,232,475      |
| Total                | \$ 645,000,129                | \$ 528,688,624 | \$ 38,532,326 | \$ 1,212,221,079 |

| December 31, 2016    | Neither Past Due Nor Impaired |                |               |                  |
|----------------------|-------------------------------|----------------|---------------|------------------|
|                      | Strong                        | Medium         | Weak          | Total            |
| Consumer loans       |                               |                |               |                  |
| Residential mortgage | \$ 124,616,769                | \$ 142,470,018 | \$ 6,736,042  | \$ 273,822,829   |
| Petit credit         | 48,047,529                    | 37,241,203     | 2,070,412     | 87,359,144       |
| Others               | 85,180,608                    | 97,384,027     | 4,726,489     | 187,291,124      |
| Corporate loans      |                               |                |               |                  |
| Secured              | 120,192,251                   | 139,442,726    | 10,413,459    | 270,048,436      |
| Unsecured            | 206,002,064                   | 84,375,246     | 8,595,459     | 298,972,769      |
| Total                | \$ 584,039,221                | \$ 500,913,220 | \$ 32,541,861 | \$ 1,117,494,302 |

c) Credit quality analysis on securities

| December 31, 2017                   | Neither Past Due Nor Impaired |               |            |                | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Loss (D) | Net (A)+(B)+(C)-(D) |
|-------------------------------------|-------------------------------|---------------|------------|----------------|-------------------------------|--------------|-------------------|-----------------------------------|---------------------|
|                                     | Above A+                      | A - BBB-      | Below BB+  | Subtotal (A)   |                               |              |                   |                                   |                     |
| Available-for-sale financial assets |                               |               |            |                |                               |              |                   |                                   |                     |
| Bonds                               | \$ 96,893,679                 | \$ 66,618,772 | \$ 602,371 | \$ 164,114,822 | \$ -                          | \$ -         | \$ 164,114,822    | \$ -                              | \$ 164,114,822      |
| Equities                            | 852,811                       | 2,973,154     | 2,263,851  | 6,089,816      | -                             | -            | 6,089,816         | -                                 | 6,089,816           |
| Held-to-maturity financial assets   |                               |               |            |                |                               |              |                   |                                   |                     |
| Bonds                               | 3,004,193                     | -             | -          | 3,004,193      | -                             | -            | 3,004,193         | -                                 | 3,004,193           |
| Others                              | -                             | 74,620        | -          | 74,620         | -                             | -            | 74,620            | -                                 | 74,620              |
| Other financial assets              |                               |               |            |                |                               |              |                   |                                   |                     |
| Bonds                               | -                             | 596,960       | -          | 596,960        | -                             | -            | 596,960           | -                                 | 596,960             |
| Equities                            | -                             | -             | 519,344    | 519,344        | -                             | 24,071       | 543,415           | 5,900                             | 537,515             |

| December 31, 2016                   | Neither Past Due Nor Impaired |               |            |                | Past Due But Not Impaired (B) | Impaired (C) | Total (A)+(B)+(C) | Provision for Impairment Loss (D) | Net (A)+(B)+(C)-(D) |
|-------------------------------------|-------------------------------|---------------|------------|----------------|-------------------------------|--------------|-------------------|-----------------------------------|---------------------|
|                                     | Above A+                      | A - BBB-      | Below BB+  | Subtotal (A)   |                               |              |                   |                                   |                     |
| Available-for-sale financial assets |                               |               |            |                |                               |              |                   |                                   |                     |
| Bonds                               | \$ 84,824,597                 | \$ 49,417,642 | \$ 506,351 | \$ 134,748,590 | \$ -                          | \$ -         | \$ 134,748,590    | \$ -                              | \$ 134,748,590      |
| Equities                            | 735,040                       | 2,602,960     | 1,164,377  | 4,500,377      | -                             | -            | 4,500,377         | -                                 | 4,500,377           |
| Others                              | 1,850,316                     | -             | -          | 1,850,316      | -                             | -            | 1,850,316         | -                                 | 1,850,316           |
| Held-to-maturity financial assets   |                               |               |            |                |                               |              |                   |                                   |                     |
| Bonds                               | 3,264,668                     | -             | -          | 3,264,668      | -                             | 305,488      | 3,570,156         | 33,893                            | 3,536,263           |
| Others                              | -                             | 80,697        | -          | 80,697         | -                             | -            | 80,697            | -                                 | 80,697              |
| Other financial assets              |                               |               |            |                |                               |              |                   |                                   |                     |
| Bonds                               | 322,790                       | 968,370       | -          | 1,291,160      | -                             | -            | 1,291,160         | -                                 | 1,291,160           |
| Equities                            | -                             | -             | 519,710    | 519,710        | -                             | 24,071       | 543,781           | 5,900                             | 537,881             |

The processing delays by the borrowers and other administrative reasons may cause financial assets to become past due but not impaired. As defined in the internal rules governing the Company's risk management, financial assets past due within 90 days are not deemed as impaired, unless there are other evidences that indicate impairment.

The vintage analysis of financial assets that are past due but not impaired was as follows:

| Item                 | December 31, 2017      |                                     |              |
|----------------------|------------------------|-------------------------------------|--------------|
|                      | Past Due Up to 1 Month | Past Due by Over 1 Month - 3 Months | Total        |
| Receivables          |                        |                                     |              |
| Credit cards         | \$ 1,003,849           | \$ 247,857                          | \$ 1,251,706 |
| Others               | 21,959                 | 16,169                              | 38,128       |
| Discounts and loans  |                        |                                     |              |
| Consumer loans       |                        |                                     |              |
| Residential mortgage | 1,517,362              | 398,557                             | 1,915,919    |
| Petit credit         | 1,626,814              | 384,455                             | 2,011,269    |
| Others               | 745,044                | 147,918                             | 892,962      |
| Corporate loans      |                        |                                     |              |
| Secured              |                        |                                     |              |
| The Bank             | 947,185                | 219,951                             | 1,167,136    |
| Subsidiaries         | -                      | 127,134                             | 127,134      |
| Unsecured            |                        |                                     |              |
| The Bank             | 221,350                | 33,062                              | 254,412      |
| Subsidiaries         | -                      | 5                                   | 5            |

| Item                 | December 31, 2016      |                                     |              |
|----------------------|------------------------|-------------------------------------|--------------|
|                      | Past Due Up to 1 Month | Past Due by Over 1 Month - 3 Months | Total        |
| Receivables          |                        |                                     |              |
| Credit cards         | \$ 1,244,532           | \$ 268,661                          | \$ 1,513,193 |
| Others               | 24,759                 | 47,796                              | 72,555       |
| Discounts and loans  |                        |                                     |              |
| Consumer loans       |                        |                                     |              |
| Residential mortgage | 1,356,390              | 421,189                             | 1,777,579    |
| Petit credit         | 1,538,085              | 338,928                             | 1,877,013    |
| Others               | 894,845                | 237,333                             | 1,132,178    |
| Corporate loans      |                        |                                     |              |
| Secured              |                        |                                     |              |
| The Bank             | 709,076                | 161,422                             | 870,498      |
| Subsidiaries         | -                      | 283,150                             | 283,150      |
| Unsecured            |                        |                                     |              |
| The Bank             | 1,003,598              | 114,389                             | 1,117,987    |
| Subsidiaries         | -                      | -                                   | -            |

### 3) Market risk

Market risk refers to the risk of fluctuation in the fair values or the future cash flows of the on- and off-balance sheet instruments held by the Company because of market price changes. The risk factors which cause market price changes usually include interest rates, exchange rates, and the prices of equity securities and commodities. Changes in these risk factors will cause risk of fluctuation in the net income or in the value of investment portfolio of the Company.

The main market risks the Company faces are the risks on equity securities, interest rates, and exchange rate risks. The equity securities exposed to market risks mainly include stocks listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market and stock index futures in Taiwan; the instruments exposed to interest rate risk mainly include bonds and interest rate derivatives such as the fixed-for-floating interest rate swap; and the instruments exposed to exchange rate risk mainly include the consolidated positions of the investment held by the Company, such as the derivatives denominated in foreign currency and foreign-currency bonds.

The Bank monitors the market risk positions and the tolerable loss of the Bank in accordance with the goals of risk management and the amount limits authorized by the board of directors. The Bank has set up market risk information systems to effectively monitor the management of amount limits on financial instruments, to evaluate the profit and loss, to conduct sensitivity analysis, stress test and calculation of value at risk (VaR), etc. The result is reported in the meetings of risk management and to the board of directors as their reference for making managerial decisions.

The Company mainly divides the positions exposed to market risks into investment portfolios held for trading and investment portfolios not held for trading. The portfolios are monitored by the Risk Management Division, and the management results are reported regularly to the board of directors and the supervisors of each division.

The business units and the risk management units both identify market risk factors for the Company's exposed positions in order to measure market risks. Market risk factors refer to the factors that affect interest rates, exchange rates and values of held financial instruments such as equity securities, etc. The Company analyzes the impact of risk factors on its holding positions, profit and loss, negative result of stress test, sensitivity, VaR, etc., and measures the levels within which the investment portfolios and equity securities might suffer from interest rate risks, exchange rate risks, etc.

The risk management division reports regularly to the board of directors the achievement of management objectives on market risks, the control of holding positions and profit and loss, the sensitivity analysis, the stress test, the value at risk of equity securities, etc. for their understanding of the Bank's market risk control. The Bank also has sound mechanisms for reporting and set limits and stop-loss regulations for all the transactions. If a trade reaches the stop-loss limit, the stop-loss will be executed immediately. Trades that do not follow the stop-loss rule should be reported to the management for their approval, and the reasons for their noncompliance as well as corresponding strategies should also be presented to the management.

The Bank uses the VaR model and stress tests to evaluate risks on investment portfolios for trading. The Bank also assesses market risks and evaluates the maximum expected loss of positions through making assumptions on changes in various market conditions. The board of directors set amount limits based on VaR. The whole risk management process is monitored daily by the Risk Management Division.

VaR statistically estimates the potential loss of the positions due to adverse market movements. It is the "maximum potential loss" the Bank may suffer within a certain confidence interval (99%), so it is still probable that the actual loss is larger than the VaR to some extent. VaR model assumes that the Bank holds the positions at least for the minimum holding periods (10 days) before they can be settled, and that the market fluctuation in these 10 days is similar to that in the past.

The Bank evaluates historical market fluctuation based on historical data in the past two years. The Bank evaluates the VaR of its holding positions using the variance/covariance method. The computation will be used for periodic examinations and verification of assumptions and parameters used. However, this evaluation method cannot prevent losses from significant market fluctuations.

Information on the VaR of the Bank was as follows:

For the year ended December 31, 2017

| <b>Historical Values at Risk<br/>(99%, 10-day)</b> | <b>Average</b>      | <b>Minimum</b> | <b>Maximum</b> | <b>December 31,<br/>2017</b> |
|----------------------------------------------------|---------------------|----------------|----------------|------------------------------|
| <u>By risk type</u>                                |                     |                |                |                              |
| Currency                                           | \$ 3,092,682        | \$ 2,627,503   | \$ 3,819,267   | \$ 3,060,009                 |
| Interest                                           | 1,818,284           | 378,101        | 3,086,222      | 378,101                      |
| Equity                                             | 245,980             | 198,639        | 272,771        | 201,507                      |
| Risk diversification                               | <u>(1,982,887)</u>  | -              | -              | <u>(497,068)</u>             |
| Total risk exposure                                | <u>\$ 3,174,059</u> |                |                | <u>\$ 3,142,549</u>          |

For the year ended December 31, 2016

| <b>Historical Values at Risk<br/>(99%, 10-day)</b> | <b>Average</b>      | <b>Minimum</b> | <b>Maximum</b> | <b>December 31,<br/>2016</b> |
|----------------------------------------------------|---------------------|----------------|----------------|------------------------------|
| <u>By risk type</u>                                |                     |                |                |                              |
| Currency                                           | \$ 2,604,185        | \$ 1,677,783   | \$ 4,182,141   | \$ 2,656,274                 |
| Interest                                           | 2,096,177           | 1,510,370      | 4,143,083      | 2,381,397                    |
| Equity                                             | 253,788             | 184,081        | 287,871        | 255,435                      |
| Risk diversification                               | <u>(1,636,908)</u>  | -              | -              | <u>(2,146,491)</u>           |
| Total risk exposure                                | <u>\$ 3,317,242</u> |                |                | <u>\$ 3,146,615</u>          |

Stress test is used to measure the greatest potential losses of the portfolio of risk assets under the worst scenarios. It is performed by the Risk Management Division, and it includes (a) a stress test on risk factors, in which the stress test is applied to all kinds of risks; and (b) a temporary stress test, in which the stress test is applied to special investment positions or specific investment areas, for example, areas where exchange rates fluctuate dramatically. The results of stress tests are reported to the senior management.

For the information on the foreign-currency financial assets and liabilities with significant effect, please refer to Table 3.

#### 4) Liquidity risk

Liquidity risk refers to the possibility of financial loss resulting from the shortage of funds in meeting the needs of asset acquisition or debt repayment on maturity. Examples are the depositors' withdrawal of deposits before maturity, difficulty in raising funds from other banks or worsening funding conditions due to the fluctuations in specific markets, unstable recovery of money due to credit defaults, deterioration of the convertibility of financial instruments, early termination of interest-sensitive instruments, etc. These situations might result in decrease of cash inflows from loans, trades and investments. In some extreme cases, lack of liquidity may cause decrease of asset values in balance sheets, disposal of assets or other situations in which loan commitments cannot be met. Liquidity risks exist in all banking operations, and are influenced by specific events from industries or markets, including but not limited to credit events, mergers and acquisitions, systematic risks in the industry or natural disasters.

Liquidity risk management is done by the Money Market Division and monitored by the Risk Management Division. The procedures include (a) maintaining daily money market operations and monitoring future cash flows to ensure the meeting of liquidity requirements; (b) holding an appropriate amount of readily convertible and highly liquid assets to prevent from unpredictable events that disrupt cash flows; (c) monitoring the liquidity ratios for the balance sheets in accordance with internal and external policies; and (d) managing security products during their remaining maturity periods. Liquidity risk monitoring and reporting are based on the valuation and prediction of future cash flows from different terms to maturity (maturity gap is used by the Bank as a tool to manage liquidity risk). The prediction of cash flows involves the cash outflows at the maturity date of the financial liabilities and the cash inflows at the receipt date of financial assets.

For maintaining solvency and meeting the needs of emergency assistance arrangements, the Company holds cash and high-quality, liquid interest-bearing assets. The assets held for liquidity risk management include cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets, and debt instruments with no active market, etc.

The liquidity reserve ratios of the Bank for December 2017 and 2016 were 30.14% and 24.99%, respectively.

The Company disclosed the analysis of cash outflows from nonderivative financial liabilities by the residual maturities as of the balance sheet date. The amounts of cash outflows are based on contractual cash flows, so some amounts may not correspond to those that shown in the consolidated balance sheets.

| December 31, 2017                                                        | 0-30 Days     | 31-90 Days    | 91-180 Days  | 181 Days - 1 Year | Over 1 Year | Total         |
|--------------------------------------------------------------------------|---------------|---------------|--------------|-------------------|-------------|---------------|
| Due to the Central Bank and other banks                                  | \$ 31,491,209 | \$ 29,607,999 | \$ 3,343,548 | \$ 2,209,459      | \$ -        | \$ 66,652,215 |
| Nonderivative financial liabilities at fair value through profit or loss | -             | 507           | -            | 406,112           | 38,550,307  | 38,956,926    |
| Securities sold under repurchase agreements                              | 9,736,682     | 1,633,753     | 873,400      | -                 | -           | 12,243,835    |
| Payables                                                                 | 22,175,932    | 545,392       | 384,229      | 996,148           | 1,981,449   | 26,083,150    |
| Deposits and remittances                                                 | 561,541,261   | 149,043,743   | 165,837,687  | 278,269,266       | 558,483,395 | 1,713,175,352 |
| Bank debentures                                                          | -             | -             | 2,100,000    | 2,900,000         | 31,750,000  | 36,750,000    |
| Other items of cash outflow on maturity                                  | 3,989,496     | 114,488       | -            | 195,597           | 1,650,158   | 5,949,739     |

| December 31, 2016                                                        | 0-30 Days     | 31-90 Days    | 91-180 Days  | 181 Days - 1 Year | Over 1 Year | Total         |
|--------------------------------------------------------------------------|---------------|---------------|--------------|-------------------|-------------|---------------|
| Due to the Central Bank and other banks                                  | \$ 21,209,757 | \$ 28,444,885 | \$ 1,804,692 | \$ 1,050,022      | \$ 6,650    | \$ 52,516,006 |
| Nonderivative financial liabilities at fair value through profit or loss | -             | 22,835        | -            | 369,522           | 34,539,392  | 34,931,749    |
| Securities sold under repurchase agreements                              | 6,838,396     | 1,411,493     | 662,374      | -                 | -           | 8,912,263     |
| Payables                                                                 | 22,489,698    | 327,790       | 121,072      | 266,479           | 90,663      | 23,295,702    |
| Deposits and remittances                                                 | 448,668,686   | 154,088,003   | 167,685,515  | 282,563,601       | 506,545,242 | 1,559,551,047 |
| Bank debentures                                                          | -             | -             | 3,000,000    | 2,500,000         | 36,750,000  | 42,250,000    |
| Other items of cash outflow on maturity                                  | 5,874,586     | 183,608       | -            | -                 | 3,596,359   | 9,654,553     |

The Company assessed the maturity date of contracts to understand the basic elements of all derivative financial instruments shown in the consolidated balance sheets. The amounts used in the maturity analyses of derivative financial liabilities are based on contractual cash flows, so some may not correspond to the amounts shown in the consolidated balance sheets. The maturity analysis of derivative financial liabilities was as follows:

a) Derivative financial liabilities to be settled at net amount

| December 31, 2017                                                     | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days - 1 Year | Over 1 Year | Total     |
|-----------------------------------------------------------------------|-----------|------------|-------------|-------------------|-------------|-----------|
| Derivative financial liabilities at fair value through profit or loss |           |            |             |                   |             |           |
| Currency                                                              | \$ -      | \$ -       | \$ 15,979   | \$ 821            | \$ -        | \$ 16,800 |

| December 31, 2016                                                     | 0-30 Days | 31-90 Days | 91-180 Days | 181 Days - 1 Year | Over 1 Year | Total    |
|-----------------------------------------------------------------------|-----------|------------|-------------|-------------------|-------------|----------|
| Derivative financial liabilities at fair value through profit or loss |           |            |             |                   |             |          |
| Currency                                                              | \$ -      | \$ -       | \$ 4,224    | \$ -              | \$ -        | \$ 4,224 |

b) Derivative financial liabilities to be settled at gross amounts

| December 31, 2017                                                     | 0-30 Days      | 31-90 Days     | 91-180 Days   | 181 Days - 1 Year | Over 1 Year  | Total          |
|-----------------------------------------------------------------------|----------------|----------------|---------------|-------------------|--------------|----------------|
| Derivative financial liabilities at fair value through profit or loss |                |                |               |                   |              |                |
| Currency derivatives                                                  |                |                |               |                   |              |                |
| Cash outflow                                                          | \$ 172,197,830 | \$ 141,828,519 | \$ 81,518,742 | \$ 98,429,982     | \$ 2,557,970 | \$ 496,533,043 |
| Cash inflow                                                           | 172,585,155    | 142,911,456    | 81,802,372    | 98,856,171        | 2,582,760    | 498,737,914    |
| Interest derivatives                                                  |                |                |               |                   |              |                |
| Cash outflow                                                          | 726,906        | 120,185        | 775,661       | 719,801           | 8,100,609    | 10,443,162     |
| Cash inflow                                                           | 1,315,405      | 30,779         | 808,527       | 377,520           | 8,104,394    | 10,636,625     |
| Total cash outflow                                                    | 172,924,736    | 141,948,704    | 82,294,403    | 99,149,783        | 10,658,579   | 506,976,205    |
| Total cash inflow                                                     | 173,900,560    | 142,942,235    | 82,610,899    | 99,233,691        | 10,687,154   | 509,374,539    |
| Net cash outflow (inflow)                                             | \$ (975,824)   | \$ (993,531)   | \$ (316,496)  | \$ (83,908)       | \$ (28,575)  | \$ (2,398,334) |

| December 31, 2016                                                     | 0-30 Days      | 31-90 Days    | 91-180 Days   | 181 Days - 1 Year | Over 1 Year  | Total          |
|-----------------------------------------------------------------------|----------------|---------------|---------------|-------------------|--------------|----------------|
| Derivative financial liabilities at fair value through profit or loss |                |               |               |                   |              |                |
| Currency derivatives                                                  |                |               |               |                   |              |                |
| Cash outflow                                                          | \$ 107,637,548 | \$ 89,441,644 | \$ 74,484,014 | \$ 62,761,398     | \$ 2,710,220 | \$ 337,034,824 |
| Cash inflow                                                           | 107,989,523    | 89,910,907    | 74,581,216    | 63,130,544        | 2,752,164    | 338,364,354    |
| Interest derivatives                                                  |                |               |               |                   |              |                |
| Cash outflow                                                          | 154,482        | 85,338        | 107,267       | 360,716           | 10,345,145   | 11,052,948     |
| Cash inflow                                                           | 330,974        | 12,073        | 236,418       | 207,568           | 10,170,448   | 10,957,481     |
| Total cash outflow                                                    | 107,792,030    | 89,526,982    | 74,591,281    | 63,122,114        | 13,055,365   | 348,087,772    |
| Total cash inflow                                                     | 108,320,497    | 89,922,980    | 74,817,634    | 63,338,112        | 12,922,612   | 349,321,835    |
| Net cash outflow (inflow)                                             | \$ (528,467)   | \$ (395,998)  | \$ (226,353)  | \$ (215,998)      | \$ 132,753   | \$ (1,234,063) |

The Company conducted the maturity analysis of off-balance sheet items based on the residual maturities as of the balance sheet date. For the financial guarantee contracts issued, the maximum amounts of the guarantees are included in the earliest periods that the guarantee obligation might have been required to be fulfilled. The amounts used in the maturity analysis of off-balance sheet items are based on contractual cash flows, so some amounts may not correspond to those shown in the consolidated balance sheets.

| December 31, 2017                       | 0-30 Days    | 31-90 Days   | 91-180 Days   | 181 Days - 1 Year | Over 1 Year   | Total         |
|-----------------------------------------|--------------|--------------|---------------|-------------------|---------------|---------------|
| Irrevocable loan commitments issued     | \$ 4,469,581 | \$ 8,778,373 | \$ 16,343,608 | \$ 32,253,627     | \$ 34,454,554 | \$ 96,299,743 |
| Credit card commitments                 | 5,830,199    | 906,125      | 3,283,007     | 15,077,029        | 332,162,775   | 357,259,135   |
| Letters of credit issued and yet unused | 2,638,818    | 4,805,525    | 873,469       | 396,607           | 812,746       | 9,527,165     |
| Other guarantees                        | 2,105,513    | 3,248,890    | 5,969,419     | 3,569,925         | 1,725,363     | 16,619,110    |

| December 31, 2016                       | 0-30 Days    | 31-90 Days   | 91-180 Days   | 181 Days - 1 Year | Over 1 Year   | Total          |
|-----------------------------------------|--------------|--------------|---------------|-------------------|---------------|----------------|
| Irrevocable loan commitments issued     | \$ 3,997,690 | \$ 8,379,961 | \$ 13,811,075 | \$ 35,180,819     | \$ 47,023,207 | \$ 108,392,752 |
| Credit card commitments                 | 2,328,163    | 2,919,419    | 9,067,451     | 24,335,280        | 295,529,228   | 334,179,541    |
| Letters of credit issued and yet unused | 3,191,780    | 4,435,885    | 932,091       | 393,550           | 816,653       | 9,769,959      |
| Other guarantees                        | 2,441,565    | 2,541,693    | 2,110,398     | 3,642,203         | 5,522,959     | 16,258,818     |

g. Transfers of financial assets

Most of the transferred financial assets of the Company that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Company's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Company is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that were not derecognized in their entirety and the associated financial liabilities were as follows:

| December 31, 2017                                                                 |                                                 |                                                     |                                            |                                                |                            |
|-----------------------------------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------|--------------------------------------------|------------------------------------------------|----------------------------|
| Category of Financial Assets                                                      | Carrying Amount of Transferred Financial Assets | Carrying Amount of Associated Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Associated Financial Liabilities | Fair Value of Net Position |
| Available-for-sale financial assets - securities sold under repurchase agreements | \$ 12,773,433                                   | \$ 12,200,468                                       | \$ 12,773,433                              | \$ 12,200,468                                  | \$ 572,965                 |

| December 31, 2016                                                                 |                                                 |                                                     |                                            |                                                |                            |
|-----------------------------------------------------------------------------------|-------------------------------------------------|-----------------------------------------------------|--------------------------------------------|------------------------------------------------|----------------------------|
| Category of Financial Assets                                                      | Carrying Amount of Transferred Financial Assets | Carrying Amount of Associated Financial Liabilities | Fair Value of Transferred Financial Assets | Fair Value of Associated Financial Liabilities | Fair Value of Net Position |
| Available-for-sale financial assets - securities sold under repurchase agreements | \$ 9,190,252                                    | \$ 8,881,723                                        | \$ 9,190,252                               | \$ 8,881,723                                   | \$ 308,529                 |

h. Offsetting financial assets and financial liabilities

The Company is eligible to present certain derivative assets and derivative liabilities on a net basis on the balance sheet since the offsetting criteria are met. Cash collateral has also been paid by part of counterparties for the net amount of the derivative assets and derivative liabilities. The cash collateral does not meet the offsetting criteria, but it can be set off against the net amount of the derivative assets and derivative liabilities in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The tables below present the quantitative information on financial assets and financial liabilities that have been offset in the balance sheet or that are covered by enforceable master netting arrangements or similar agreements.

December 31, 2017

| Financial Assets  | Gross Amounts of Recognized Financial Assets | Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet | Net Amounts of Financial Assets Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet |                          | Net Amounts         |
|-------------------|----------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|--------------------------|---------------------|
|                   |                                              |                                                                               |                                                                | Financial Instruments                           | Cash Collateral Received |                     |
| Derivatives       | \$ 5,274,257                                 | \$ -                                                                          | \$ 5,274,257                                                   | \$ (1,919,496)                                  | \$ (1,796,421)           | \$ 1,558,340        |
| Resell agreements | <u>41,475</u>                                | <u>-</u>                                                                      | <u>41,475</u>                                                  | <u>(15,626)</u>                                 | <u>-</u>                 | <u>25,849</u>       |
|                   | <u>\$ 5,315,732</u>                          | <u>\$ -</u>                                                                   | <u>\$ 5,315,732</u>                                            | <u>\$ (1,935,122)</u>                           | <u>\$ (1,796,421)</u>    | <u>\$ 1,584,189</u> |

| Financial Liabilities | Gross Amounts of Recognized Financial Liabilities | Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet | Net Amounts of Financial Liabilities Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet |                         | Net Amounts         |
|-----------------------|---------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------|-------------------------|---------------------|
|                       |                                                   |                                                                          |                                                                     | Financial Instruments                           | Cash Collateral Pledged |                     |
| Derivatives           | \$ 5,300,429                                      | \$ -                                                                     | \$ 5,300,429                                                        | \$ (1,919,496)                                  | \$ (1,661,175)          | \$ 1,719,758        |
| Repurchase agreements | 12,220,125                                        | -                                                                        | 12,220,125                                                          | (12,220,125)                                    | -                       | -                   |
| Settlements           | <u>15,626</u>                                     | <u>-</u>                                                                 | <u>15,626</u>                                                       | <u>(15,626)</u>                                 | <u>-</u>                | <u>-</u>            |
|                       | <u>\$ 17,536,180</u>                              | <u>\$ -</u>                                                              | <u>\$ 17,536,180</u>                                                | <u>\$ (14,155,247)</u>                          | <u>\$ (1,661,175)</u>   | <u>\$ 1,719,758</u> |

December 31, 2016

| Financial Assets  | Gross Amounts of Recognized Financial Assets | Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet | Net Amounts of Financial Assets Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet |                          | Net Amounts         |
|-------------------|----------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------|-------------------------------------------------|--------------------------|---------------------|
|                   |                                              |                                                                               |                                                                | Financial Instruments                           | Cash Collateral Received |                     |
| Derivatives       | \$ 9,100,138                                 | \$ -                                                                          | \$ 9,100,138                                                   | \$ (4,340,857)                                  | \$ (2,032,973)           | \$ 2,726,308        |
| Resell agreements | <u>174,017</u>                               | <u>-</u>                                                                      | <u>174,017</u>                                                 | <u>(174,017)</u>                                | <u>-</u>                 | <u>-</u>            |
|                   | <u>\$ 9,274,155</u>                          | <u>\$ -</u>                                                                   | <u>\$ 9,274,155</u>                                            | <u>\$ (4,514,874)</u>                           | <u>\$ (2,032,973)</u>    | <u>\$ 2,726,308</u> |

| Financial Liabilities | Gross Amounts of Recognized Financial Liabilities | Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet | Net Amounts of Financial Liabilities Presented in the Balance Sheet | Related Amounts Not Offset in the Balance Sheet |                         | Net Amounts         |
|-----------------------|---------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------------------|-------------------------|---------------------|
|                       |                                                   |                                                                          |                                                                     | Financial Instruments                           | Cash Collateral Pledged |                     |
| Derivatives           | \$ 8,666,026                                      | \$ -                                                                     | \$ 8,666,026                                                        | \$ (4,340,857)                                  | \$ (1,345,262)          | \$ 2,979,907        |
| Repurchase agreements | 8,896,315                                         | -                                                                        | 8,896,315                                                           | (8,896,315)                                     | -                       | -                   |
| Settlements           | <u>17,059</u>                                     | <u>-</u>                                                                 | <u>17,059</u>                                                       | <u>-</u>                                        | <u>-</u>                | <u>17,059</u>       |
|                       | <u>\$ 17,579,400</u>                              | <u>\$ -</u>                                                              | <u>\$ 17,579,400</u>                                                | <u>\$ (13,237,172)</u>                          | <u>\$ (1,345,262)</u>   | <u>\$ 2,996,966</u> |

**40. CAPITAL MANAGEMENT**

The two main objectives of capital management of the Bank are (a) meeting the requirements for legal capital set by the authorities and building an effective system for capital management and (b) balancing risk control and business development under the premise of “undertaking risks and earning returns on capital” and maximizing the stockholders’ profits.

The Banking Law and related regulations require that the Bank maintains both standalone and consolidated ratios of regulatory capital to risk-weighted assets (including ratio of the common equity to risk-weighted assets, ratio of Tier 1 capital to risk-weighted assets and capital adequacy ratio (CAR)) should comply with the minimum ratio requested by authorities.

The capital of the Bank is jointly managed by the Capital Management Team and the Risk Management Division. The management process starts from the evaluation and adjustments to plans or budgets by using different quantitative methods that consider risks, returns and growth rates. Subsequently, the evaluation and adjustments are used to confirm the total amount of capital requirement and is eventually used to allocate the capital to the respective branches and operating units. The whole process takes into consideration the quantitative risk assessment, plans and budgets, capital balance and allocation of economic capitals to corresponding units on the basis of risk appetite. The process is a combination of risk appetite, capital management, risk management, managerial decisions and performance assessment.

Information on the Bank's CAR was as follows:

(Unit: In Thousands of New Taiwan Dollars, %)

| Items                                               |                      | Year                                                    | December 31, 2017 |                |
|-----------------------------------------------------|----------------------|---------------------------------------------------------|-------------------|----------------|
|                                                     |                      |                                                         | Standalone        | Consolidated   |
| Eligible capital                                    | Common equity        |                                                         | \$ 137,835,715    | \$ 139,863,762 |
|                                                     | Other Tier 1 capital |                                                         | 14,647,495        | 18,020,470     |
|                                                     | Tier 2 capital       |                                                         | 42,000,841        | 49,344,778     |
|                                                     | Eligible capital     |                                                         | 194,484,051       | 207,229,010    |
| Risk-weighted assets                                | Credit risk          | Standardized approach                                   | 1,185,638,241     | 1,232,233,279  |
|                                                     |                      | Internal ratings-based approach                         | -                 | -              |
|                                                     |                      | Securitization                                          | -                 | -              |
|                                                     | Operational risk     | Basic indicator approach                                | -                 | -              |
|                                                     |                      | Standardized approach/alternative standardized approach | 66,504,500        | 69,492,363     |
|                                                     |                      | Advanced measurement approach                           | -                 | -              |
|                                                     | Market risk          | Standardized approach                                   | 43,661,600        | 44,490,150     |
|                                                     |                      | Internal model approach                                 | -                 | -              |
|                                                     | Risk-weighted assets |                                                         |                   | 1,295,804,341  |
| Capital adequacy ratio (%)                          |                      |                                                         | 15.01             | 15.39          |
| Ratio of common equity to risk-weighted assets (%)  |                      |                                                         | 10.64             | 10.39          |
| Ratio of Tier 1 capital to risk-weighted assets (%) |                      |                                                         | 11.77             | 11.73          |
| Leverage ratio (%)                                  |                      |                                                         | 7.11              | 7.23           |

(Unit: In Thousands of New Taiwan Dollars, %)

| Items                                               |                      | Year                                                    | December 31, 2016 |                |
|-----------------------------------------------------|----------------------|---------------------------------------------------------|-------------------|----------------|
|                                                     |                      |                                                         | Standalone        | Consolidated   |
| Eligible capital                                    | Common equity        |                                                         | \$ 117,217,039    | \$ 119,481,671 |
|                                                     | Other Tier 1 capital |                                                         | 14,031,679        | 17,294,464     |
|                                                     | Tier 2 capital       |                                                         | 43,688,237        | 51,570,494     |
|                                                     | Eligible capital     |                                                         | 174,936,955       | 188,346,629    |
| Risk-weighted assets                                | Credit risk          | Standardized approach                                   | 1,183,636,579     | 1,232,534,478  |
|                                                     |                      | Internal ratings-based approach                         | -                 | -              |
|                                                     |                      | Securitization                                          | -                 | -              |
|                                                     | Operational risk     | Basic indicator approach                                | -                 | -              |
|                                                     |                      | Standardized approach/alternative standardized approach | 58,867,763        | 60,688,275     |
|                                                     |                      | Advanced measurement approach                           | -                 | -              |
|                                                     | Market risk          | Standardized approach                                   | 33,630,263        | 34,100,088     |
|                                                     |                      | Internal model approach                                 | -                 | -              |
|                                                     | Risk-weighted assets |                                                         |                   | 1,276,134,605  |
| Capital adequacy ratio (%)                          |                      |                                                         | 13.71             | 14.19          |
| Ratio of common equity to risk-weighted assets (%)  |                      |                                                         | 9.19              | 9.00           |
| Ratio of Tier 1 capital to risk-weighted assets (%) |                      |                                                         | 10.28             | 10.30          |
| Leverage ratio (%)                                  |                      |                                                         | 6.69              | 6.84           |

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk - Weighted Assets of Banks.”

Note 2: Formulas used were as follows:

- 1) Eligible capital = Common equity + Other Tier 1 capital + Tier 2 capital.
- 2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of the common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity + Other Tier 1 capital) ÷ Risk-weighted assets.
- 6) Leverage ratio = Tier 1 capital ÷ Exposure measurement.

**41. THE BANK'S ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

- a. Asset quality: Table 4 (attached).  
 b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

| December 31, 2017 |                                                                                 |                                                                   |                                   | December 31, 2016                                                               |                                                                   |                                   |
|-------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|---------------------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------|
| Rank (Note 1)     | Industry of Group Enterprise (Note 2)                                           | Total Amount of Credit Endorsement or Other Transactions (Note 3) | Percentage of E.SUN Bank's Equity | Industry of Group Enterprise (Note 2)                                           | Total Amount of Credit Endorsement or Other Transactions (Note 3) | Percentage of E.SUN Bank's Equity |
| 1                 | Group A<br>Ocean transportation                                                 | \$ 6,248,664                                                      | 4.25                              | Group A<br>Ocean transportation                                                 | \$ 6,919,876                                                      | 5.48                              |
| 2                 | Group B<br>Real estate brokers                                                  | 4,863,522                                                         | 3.31                              | Group K<br>Smelting and refining of iron and steel                              | 6,092,623                                                         | 4.82                              |
| 3                 | Group C<br>Manufacture of computers                                             | 4,845,824                                                         | 3.29                              | Group L<br>Activities of head offices                                           | 5,851,503                                                         | 4.63                              |
| 4                 | Group D<br>Wholesale of computers, computer peripheral equipment and software   | 4,627,383                                                         | 3.14                              | Group E<br>Wired telecommunications activities                                  | 5,776,779                                                         | 4.57                              |
| 5                 | Group E<br>Wired telecommunications activities                                  | 4,603,560                                                         | 3.13                              | Group C<br>Manufacture of computers                                             | 4,822,651                                                         | 3.82                              |
| 6                 | Group F<br>Activities of head offices                                           | 4,341,597                                                         | 2.95                              | Group F<br>Activities of head offices                                           | 4,657,864                                                         | 3.69                              |
| 7                 | Group G<br>Manufacture of liquid crystal panel and components                   | 4,247,555                                                         | 2.89                              | Group D<br>Wholesale of computers, computer peripheral equipment and software   | 4,469,393                                                         | 3.54                              |
| 8                 | Group H<br>Manufacture of computers                                             | 4,208,262                                                         | 2.86                              | Group J<br>Retail sale of computers, computer peripheral equipment and software | 4,291,393                                                         | 3.40                              |
| 9                 | Group I<br>Real estate development                                              | 4,155,897                                                         | 2.82                              | Group I<br>Real estate development                                              | 4,173,044                                                         | 3.30                              |
| 10                | Group J<br>Retail sale of computers, computer peripheral equipment and software | 3,914,337                                                         | 2.66                              | Group M<br>Merchandise Brokers                                                  | 3,781,547                                                         | 2.99                              |

Note 1: The list shows top 10 rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the Group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Total amount of credit, endorsement or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, accounts receivable factored without recourse, acceptances and guarantees.

c. Interest rate sensitivity information

**Interest Rate Sensitivity (New Taiwan Dollars)**

(In Thousands of New Taiwan Dollars, %)

December 31, 2017

| Items                                                  | 1 to 90 Days     | 91 to 180 Days | 181 Days to One Year | Over One Year | Total            |
|--------------------------------------------------------|------------------|----------------|----------------------|---------------|------------------|
| Interest rate-sensitive assets                         | \$ 1,252,931,710 | \$ 32,214,598  | \$ 37,982,689        | \$ 98,074,142 | \$ 1,421,203,139 |
| Interest rate-sensitive liabilities                    | 304,988,151      | 791,160,851    | 72,759,219           | 38,196,622    | 1,207,104,843    |
| Interest rate sensitivity gap                          | 947,943,559      | (758,946,253)  | (34,776,530)         | 59,877,520    | 214,098,296      |
| Net worth                                              |                  |                |                      |               | 137,499,335      |
| Ratio of interest rate-sensitive assets to liabilities |                  |                |                      |               | 117.74           |
| Ratio of interest rate sensitivity gap to net worth    |                  |                |                      |               | 155.71           |

December 31, 2016

| Items                                                  | 1 to 90 Days     | 91 to 180 Days | 181 Days to One Year | Over One Year | Total            |
|--------------------------------------------------------|------------------|----------------|----------------------|---------------|------------------|
| Interest rate-sensitive assets                         | \$ 1,163,048,139 | \$ 26,512,574  | \$ 39,134,410        | \$ 72,854,863 | \$ 1,301,549,986 |
| Interest rate-sensitive liabilities                    | 272,585,531      | 775,342,591    | 83,214,259           | 49,823,985    | 1,180,966,366    |
| Interest rate sensitivity gap                          | 890,462,608      | (748,830,017)  | (44,079,849)         | 23,030,878    | 120,583,620      |
| Net worth                                              |                  |                |                      |               | 118,796,803      |
| Ratio of interest rate-sensitive assets to liabilities |                  |                |                      |               | 110.21           |
| Ratio of interest rate sensitivity gap to net worth    |                  |                |                      |               | 101.50           |

Note 1: The above amounts included only New Taiwan dollar amounts held by the head office and branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in New Taiwan dollars).

**Interest Rate Sensitivity (U.S. Dollars)**

(In Thousands of U.S. Dollars, %)

December 31, 2017

| Items                                                  | 1 to 90 Days  | 91 to 180 Days | 181 Days to One Year | Over One Year | Total         |
|--------------------------------------------------------|---------------|----------------|----------------------|---------------|---------------|
| Interest rate-sensitive assets                         | \$ 10,234,659 | \$ 245,564     | \$ 56,656            | \$ 1,077,846  | \$ 11,614,725 |
| Interest rate-sensitive liabilities                    | 12,859,330    | 1,535,050      | 1,477,999            | 1,259,171     | 17,131,550    |
| Interest rate sensitivity gap                          | (2,624,671)   | (1,289,486)    | (1,421,343)          | (181,325)     | (5,516,825)   |
| Net worth                                              |               |                |                      |               | 234,112       |
| Ratio of interest rate-sensitive assets to liabilities |               |                |                      |               | 67.80         |
| Ratio of interest rate sensitivity gap to net worth    |               |                |                      |               | (2,356.49)    |

December 31, 2016

| Items                                                  | 1 to 90 Days | 91 to 180 Days | 181 Days to One Year | Over One Year | Total        |
|--------------------------------------------------------|--------------|----------------|----------------------|---------------|--------------|
| Interest rate-sensitive assets                         | \$ 8,160,386 | \$ 273,841     | \$ 157,871           | \$ 985,896    | \$ 9,577,994 |
| Interest rate-sensitive liabilities                    | 8,554,635    | 915,992        | 1,154,962            | 1,135,953     | 11,761,542   |
| Interest rate sensitivity gap                          | (394,249)    | (642,151)      | (997,091)            | (150,057)     | (2,183,548)  |
| Net worth                                              |              |                |                      |               | 112,849      |
| Ratio of interest rate-sensitive assets to liabilities |              |                |                      |               | 81.43        |
| Ratio of interest rate sensitivity gap to net worth    |              |                |                      |               | (1,934.93)   |

Note 1: The above amounts included only U.S. dollar amounts held by the head office, domestic branches, OBU and overseas branches of the Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in U.S. dollars).

d. Profitability

Unit: %

| Items                  |                   | December 31, 2017 | December 31, 2016 |
|------------------------|-------------------|-------------------|-------------------|
| Return on total assets | Before income tax | 0.89              | 0.88              |
|                        | After income tax  | 0.77              | 0.75              |
| Return on equity       | Before income tax | 12.60             | 12.89             |
|                        | After income tax  | 10.89             | 11.00             |
| Net income ratio       |                   | 34.91             | 34.84             |

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

Note 2: Return on equity = Income before (after) income tax/Average equity

Note 3: Net income ratio = Income after income tax/Total net revenues

Note 4: Income before (after) income tax represents income from January to each period-end date.

Note 5: The Bank merged with ESIB on March 25, 2016 (the effective date of the combination). Since the combination was essentially a reorganization under common control, the Bank restated prior years' financial statements assuming the combination had occurred at the beginning when preparing the comparative financial statements; hence, the profitability was calculated with the restated amounts concluding financial results of ESIB for the period from January 1, 2016 to March 25, 2016.

e. Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

(In Thousands of New Taiwan Dollars)

December 31, 2017

|                                  | Total            | Remaining Period to Maturity |               |               |               |                    |                |
|----------------------------------|------------------|------------------------------|---------------|---------------|---------------|--------------------|----------------|
|                                  |                  | 0-10 Days                    | 11-30 Days    | 31-90 Days    | 91-180 Days   | 181 Days to 1 Year | Over 1 Year    |
| Main capital inflow on maturity  | \$ 1,650,199,551 | \$ 389,699,265               | \$ 83,599,219 | \$ 91,199,421 | \$ 93,174,035 | \$ 106,966,600     | \$ 885,561,011 |
| Main capital outflow on maturity | 1,985,853,350    | 82,158,139                   | 111,425,641   | 198,925,457   | 201,115,368   | 332,174,382        | 1,060,054,363  |
| Gap                              | (335,653,799)    | 307,541,126                  | (27,826,422)  | (107,726,036) | (107,941,333) | (225,207,782)      | (174,493,352)  |

December 31, 2016

|                                  | Total            | Remaining Period to Maturity |               |                |                |                    |                |
|----------------------------------|------------------|------------------------------|---------------|----------------|----------------|--------------------|----------------|
|                                  |                  | 0-10 Days                    | 11-30 Days    | 31-90 Days     | 91-180 Days    | 181 Days to 1 Year | Over 1 Year    |
| Main capital inflow on maturity  | \$ 1,486,184,432 | \$ 332,323,100               | \$ 89,891,073 | \$ 127,067,152 | \$ 142,140,794 | \$ 234,795,288     | \$ 559,967,025 |
| Main capital outflow on maturity | 1,817,730,144    | 63,556,835                   | 90,787,921    | 179,322,020    | 199,375,758    | 307,637,311        | 977,050,299    |
| Gap                              | (331,545,712)    | 268,766,265                  | (896,848)     | (52,254,868)   | (57,234,964)   | (72,842,023)       | (417,083,274)  |

Note: The above amounts included only New Taiwan dollar amounts held by the Bank.

**Maturity Analysis of Assets and Liabilities (U.S. Dollars)**

(In Thousands of U.S. Dollars)

December 31, 2017

|                                  | Total         | Remaining Period to Maturity |              |              |                    |              |
|----------------------------------|---------------|------------------------------|--------------|--------------|--------------------|--------------|
|                                  |               | 0-30 Days                    | 31-90 Days   | 91-180 Days  | 181 Days to 1 Year | Over 1 Year  |
| Main capital inflow on maturity  | \$ 23,816,942 | \$ 7,716,085                 | \$ 3,694,241 | \$ 2,953,161 | \$ 2,828,607       | \$ 6,624,848 |
| Main capital outflow on maturity | 27,840,699    | 6,953,177                    | 6,503,639    | 4,854,481    | 6,048,192          | 3,481,210    |
| Gap                              | (4,023,757)   | 762,908                      | (2,809,398)  | (1,901,320)  | (3,219,585)        | 3,143,638    |

December 31, 2016

|                                  | Total         | Remaining Period to Maturity |              |              |                    |              |
|----------------------------------|---------------|------------------------------|--------------|--------------|--------------------|--------------|
|                                  |               | 0-30 Days                    | 31-90 Days   | 91-180 Days  | 181 Days to 1 Year | Over 1 Year  |
| Main capital inflow on maturity  | \$ 16,935,131 | \$ 5,183,464                 | \$ 2,373,940 | \$ 2,205,021 | \$ 1,679,379       | \$ 5,493,327 |
| Main capital outflow on maturity | 21,030,407    | 4,171,298                    | 5,242,162    | 4,184,679    | 5,406,242          | 2,026,026    |
| Gap                              | (4,095,276)   | 1,012,166                    | (2,868,222)  | (1,979,658)  | (3,726,863)        | 3,467,301    |

Note: The above amounts included only U.S. dollar amounts held by the Bank.

**42. TRUST BUSINESS UNDER THE TRUST LAW**

- a. Trust-related items, as shown in the following balance sheet, statements of income and trust property list

The trust-related items shown below were managed by the Bank's Trust Department. However, these items were not included in the Company's consolidated financial statements.

**Balance Sheets of Trust Accounts  
December 31, 2017 and 2016**

| Trust Assets     | 2017                  | 2016                  | Trust Liabilities | 2017                  | 2016                  |
|------------------|-----------------------|-----------------------|-------------------|-----------------------|-----------------------|
| Cash in banks    | \$ 6,467,320          | \$ 5,706,463          | Accounts payable  |                       |                       |
| Investments      | 212,142,200           | 190,438,106           | on securities     |                       |                       |
| Receivables      | 1                     | -                     | under custody     | \$ 263,371,825        | \$ 210,773,685        |
| Real estate      | 5,612,113             | 4,741,097             | Trust capital     |                       |                       |
| Securities under |                       |                       | Cash              | 218,238,361           | 243,490,153           |
| custody          | <u>263,371,825</u>    | <u>210,773,685</u>    | Securities        | 1,963,495             | 2,562,752             |
|                  |                       |                       | Real estate       | 5,217,391             | 4,836,967             |
|                  |                       |                       | Reserves and      |                       |                       |
|                  |                       |                       | accumulated       |                       |                       |
|                  |                       |                       | deficit           | (8,735,833)           | (51,777,033)          |
|                  |                       |                       | Net income        | <u>7,538,220</u>      | <u>1,772,827</u>      |
| Total assets     | <u>\$ 487,593,459</u> | <u>\$ 411,659,351</u> | Total liabilities | <u>\$ 487,593,459</u> | <u>\$ 411,659,351</u> |

**Trust Property List  
December 31, 2017 and 2016**

|                                            | <b>2017</b>           | <b>2016</b>           |
|--------------------------------------------|-----------------------|-----------------------|
| Cash in the Bank                           | \$ 6,467,168          | \$ 5,706,426          |
| Cash in other banks                        | 152                   | 37                    |
| Stocks                                     | 6,195,188             | 4,747,414             |
| Mutual funds                               | 176,915,356           | 161,164,955           |
| Bonds                                      | 24,808,927            | 21,164,127            |
| Structured products                        | 3,484,049             | 3,100,610             |
| Beneficial certificates pending settlement | 738,680               | 261,000               |
| Receivables                                | 1                     | -                     |
| Real estate                                | 5,612,113             | 4,741,097             |
| Securities under custody                   | <u>263,371,825</u>    | <u>210,773,685</u>    |
|                                            | <u>\$ 487,593,459</u> | <u>\$ 411,659,351</u> |

**Statements of Income on Trust Accounts  
For the Years Ended December 31, 2017 and 2016**

|                                        | <b>2017</b>         | <b>2016</b>         |
|----------------------------------------|---------------------|---------------------|
| <u>Revenues</u>                        |                     |                     |
| Interest                               | \$ 15,850           | \$ 18,609           |
| Cash dividend                          | 6,012,912           | 5,145,103           |
| Realized capital gain - common stock   | 2,829               | 807                 |
| Realized capital gain - bond           | -                   | 329                 |
| Unrealized capital gain - common stock | 17,479              | -                   |
| Unrealized capital gain - funds        | 72                  | -                   |
| Property gain                          | 3,553,717           | 1,947,174           |
| Realized capital gain                  | 1,744,408           | 1,097,067           |
| Revenues from beneficial certificates  | 5,312               | 2,816               |
| Revenues from rent for stocks          | <u>1,433</u>        | <u>943</u>          |
|                                        | <u>11,354,012</u>   | <u>8,212,848</u>    |
| <u>Expenses</u>                        |                     |                     |
| Management fees                        | 239,189             | 248,122             |
| Supervisor fees                        | 105                 | 70                  |
| Service fees                           | 265                 | 1,866               |
| Property loss                          | 3,465,945           | 5,982,814           |
| Income tax                             | 1,032               | 1,191               |
| Tax expenditures                       | 15,432              | 1,283               |
| Other expenses                         | 9,980               | 13,875              |
| Realized capital loss                  | 83,590              | 190,800             |
| Unrealized capital loss                | 254                 | -                   |
| Total expenses                         | <u>3,815,792</u>    | <u>6,440,021</u>    |
| Net income                             | <u>\$ 7,538,220</u> | <u>\$ 1,772,827</u> |

b. Nature of trust business operations under the Trust Law: Note 1.

**43. ALLOCATION OF REVENUE, COST AND EXPENSE THAT RESULTED FROM THE SHARING OF RESOURCES BETWEEN E.SUN FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES**

Under cooperation arrangements, the Bank and E.SUN Securities shared some equipment and operating sites; thus, related expenses were allocated as follows:

|                                                | Bank          | E.SUN<br>Securities | Total           | Allocation Method                                                                   |
|------------------------------------------------|---------------|---------------------|-----------------|-------------------------------------------------------------------------------------|
| For the year ended<br><u>December 31, 2017</u> |               |                     |                 |                                                                                     |
| Broadcasting and security systems              | \$ 72         | \$ 72               | \$ 144          | 50% each                                                                            |
| Others                                         | 716           | 618                 | 1,334           | Utilities - 50% each<br>Building maintenance fee - based on space actually occupied |
|                                                | <u>\$ 788</u> | <u>\$ 690</u>       | <u>\$ 1,478</u> |                                                                                     |
| For the year ended<br><u>December 31, 2016</u> |               |                     |                 |                                                                                     |
| Broadcasting and security systems              | \$ 72         | \$ 71               | \$ 143          | 50% each                                                                            |
| Others                                         | 723           | 627                 | 1,350           | Utilities - 50% each<br>Building maintenance fee - based on space actually occupied |
|                                                | <u>\$ 795</u> | <u>\$ 698</u>       | <u>\$ 1,493</u> |                                                                                     |

The cross-selling transactions between the Bank and E.SUN Securities were as follows (the amounts below refer to the Bank):

|         | <u>For the Year Ended December 31</u> |                  |
|---------|---------------------------------------|------------------|
|         | 2017                                  | 2016             |
| Revenue | <u>\$ 5,388</u>                       | <u>\$ 5,907</u>  |
| Expense | <u>\$ 102,109</u>                     | <u>\$ 86,431</u> |

**44. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS**

On August 25, 2017, the Bank acquired from non-controlling interests for additional 25% shares of UCB, which increased its continuing interest from 75% to 100%.

The above transaction was accounted for as equity transaction, since the Bank did not cease to have control over the subsidiary.

|                                                                                                                               | <b>UCB</b>        |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Cash consideration paid                                                                                                       | \$ 1,221,457      |
| The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests | (404,619)         |
| Reattribution of other equity from non-controlling interests                                                                  |                   |
| Exchange differences on the translation of the financial statements of foreign operations                                     | 12,160            |
| Unrealized gains on available-for-sale financial asset                                                                        | <u>1,477</u>      |
| Differences arising from equity transaction (reduced retained earnings)                                                       | <u>\$ 830,475</u> |

#### 45. BUSINESS COMBINATIONS

##### a. Subsidiary acquired

|                                        | <b>Principal Activity</b>      | <b>Date of Acquisition</b> | <b>Proportion of Voting Equity Interests Acquired (%)</b> | <b>Consideration Transferred</b> |
|----------------------------------------|--------------------------------|----------------------------|-----------------------------------------------------------|----------------------------------|
| BankPro E-Service Technology Co., Ltd. | E-commerce application service | January 11, 2016           | 58.34                                                     | <u>\$ 224,437</u>                |

BankPro was founded in October 2000. BankPro is engaged in retail sale of computer software, software design service, data processing service, digital information supply service and business consultant. The Bank had originally obtained 3.33% of BankPro's outstanding shares. To expand business applying economies of scale, on January 11, 2016, the Bank had acquired 58.34% of outstanding shares of BankPro, and gained control over BankPro.

##### b. Considerations transferred

Under the share purchase arrangement, the Bank had paid the seller \$224,437 thousand.

Acquisition-related costs were excluded from the consideration transferred and recognized as an expense in the year of acquisition.

##### c. Assets acquired and liabilities assumed at the date of acquisition

|                               | <b>BankPro</b>    |
|-------------------------------|-------------------|
| Cash and cash equivalents     | \$ 83,786         |
| Receivables, net              | 184,511           |
| Other financial assets, net   | 1,000             |
| Properties and equipment, net | 2,028             |
| Intangible assets, net        | 84,567            |
| Deferred tax assets           | 1,225             |
| Other assets, net             | 31,287            |
| Payables                      | (102,829)         |
| Current tax liabilities       | (1,255)           |
| Provisions                    | (4,768)           |
| Other liabilities             | <u>(7,710)</u>    |
|                               | <u>\$ 271,842</u> |

The accounts receivable acquired in the combination had a fair value of \$184,511 thousand; the gross contractual amount was \$184,511 thousand.

d. Non-controlling interests

The non-controlling interests recognized at the acquisition date were measured by the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

e. Goodwill arising on acquisition

|                                                             | <b>Amount</b>    |
|-------------------------------------------------------------|------------------|
| Consideration transferred                                   | \$ 224,437       |
| Plus:                                                       |                  |
| Fair value of BankPro's shares held before acquisition date | 8,845            |
| Non-controlling interests                                   | 104,206          |
| Less: Fair value of identifiable net assets acquired        | <u>(271,842)</u> |
| Goodwill arising on acquisition                             | <u>\$ 65,646</u> |

Goodwill arose in the acquisition of BankPro because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

f. Net cash outflow on acquisition of subsidiary

|                                                                     | <b>For the Year<br/>Ended<br/>December 31,<br/>2016</b> |
|---------------------------------------------------------------------|---------------------------------------------------------|
| Consideration paid in cash                                          | \$ 224,437                                              |
| Less: The balance of acquired cash and cash equivalents under IAS 7 | <u>83,786</u>                                           |
|                                                                     | <u>\$ 140,651</u>                                       |

g. Impact of acquisition on the results of the Company

The profits recognized in the year ended December 31, 2016 due to the Bank's evaluation to the 3.33% holding equity of BankPro prior to the combination were \$4,345 thousand (part of other noninterest gains, net).

From the acquisition date, the business results from BankPro were as follows:

|             | <b>For the Period<br/>from<br/>January 11,<br/>2016 to<br/>December 31,<br/>2016</b> |
|-------------|--------------------------------------------------------------------------------------|
| Net revenue | <u>\$ 74,826</u>                                                                     |
| Net income  | <u>\$ 27,260</u>                                                                     |

#### 46. OTHERS

The Bank merged with ESIB on March 25, 2016. In accordance with “IFRS 3 dealing with business combination under common control” under the Q&A to IFRS issued by Accounting Research and Development Foundation (ARDF) of the Republic of China, since the Bank and ESIB are both 100% subsidiaries of ESFHC, and that IFRS 3 “business combinations” does not disclose explicitly the business combinations under common control, the related explanations issued by ARDF should be applied instead.

Under explanations issued by ARDF, the merger should be treated as a reorganization. In addition, the Bank should recognize all the assets and liabilities of ESIB at carrying amount and retroactively restated the Bank’s financial statements, and also restated prior years’ comparative financial statements assuming the combination had occurred at the beginning. The Bank acquired ESIB’s assets and liabilities through a share swap at a ratio of 1:3.91, with 44,183 thousand of new shares issued and the net assets of ESIB amounted to \$792,214 thousand.

#### 47. ADDITIONAL DISCLOSURES

a. Significant transactions and b. investees:

- 1) Financing provided: Not applicable.
- 2) Endorsement/guarantee provided: Not applicable.
- 3) Marketable securities held: Not applicable.
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital (the Bank disclosed its investments acquired or disposed of): Table 5 (attached).
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 10% of the paid-in capital: Table 6 (attached).
- 6) Disposal of individual real estate at costs of at least NT\$300 million or 10% of the paid-in capital: None.
- 7) Financial asset securitization: None.
- 8) Allowance of service fees to related parties amounting to at least NT\$5 million: None.
- 9) Receivables from related parties amounting to at least NT\$300 million or 10% of the paid-in capital: None.
- 10) Sale of nonperforming loans: None.
- 11) Other significant transactions which may affect the decisions of users of financial reports: Note 46 to the consolidated financial statements.
- 12) Related information and proportionate share in investees: Table 7 (attached).
- 13) Derivative transactions: Notes 8 and 39 to the consolidated financial statements.

c. Investment in Mainland China:

The information on major operating items, paid-in capital, methods of investment, investment inflows and outflows, proportion of stockholdings, investment income or loss, book value at period-end, the remitted investment profits and the limit on the amount of investment in Mainland China is shown in Table 8 (attached).

d. Business relationship and significant transactions among the parent company and subsidiaries: Table 9 (attached).

#### 48. OPERATING SEGMENTS

The information reported to the Company's chief operating decision makers for the assessment of segment performance focuses mainly on operation and profitability. The Company's reportable segments are as follows:

- a. Corporate banking unit, which handles corporate loans, foreign exchange business, and financial banking operations, etc.;
- b. Individual banking unit, which handles residential mortgage, unsecured personal loans (UPLs), wealth management, and credit cards;
- c. Overseas branches and subsidiaries, including overseas branches and subsidiaries' business; and
- d. Others, including the head office and other performance units except for the above operating segments.

The accounting policies of the reportable segments are the same as the Company's accounting policies described in Note 4. Segment profit is measured at income before income tax, and this measure is reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance. The terms of transactions between segments are similar to those for third parties.

The revenues, expenses and related information of the Company's reportable segments were as follows:

(In Millions of New Taiwan Dollars)

|                                                             | For the Year Ended December 31, 2017 |                               |                                            |            |           |
|-------------------------------------------------------------|--------------------------------------|-------------------------------|--------------------------------------------|------------|-----------|
|                                                             | Corporate<br>Banking<br>Unit         | Individual<br>Banking<br>Unit | Foreign<br>Branches<br>and<br>Subsidiaries | Others     | Total     |
| Net interest revenues (expenses)                            | \$ 9,125                             | \$ 12,516                     | \$ 3,032                                   | \$ (4,658) | \$ 20,015 |
| Total net revenues                                          | \$ 17,463                            | \$ 21,594                     | \$ 4,532                                   | \$ 1,270   | \$ 44,859 |
| Bad-debt expenses and provision<br>for losses on guarantees | (926)                                | (998)                         | (1,570)                                    | (375)      | (3,869)   |
| Operating expenses                                          | (3,884)                              | (11,417)                      | (1,965)                                    | (6,771)    | (24,037)  |
| Income (loss) before income tax                             | \$ 12,653                            | \$ 9,179                      | \$ 997                                     | \$ (5,876) | \$ 16,953 |

**For the Year Ended December 31, 2016**

|                                                             | <b>Corporate<br/>Banking<br/>Unit</b> | <b>Individual<br/>Banking<br/>Unit</b> | <b>Foreign<br/>Branches<br/>and<br/>Subsidiaries</b> | <b>Others</b>     | <b>Total</b>     |
|-------------------------------------------------------------|---------------------------------------|----------------------------------------|------------------------------------------------------|-------------------|------------------|
| Net interest revenues (expenses)                            | <u>\$ 7,730</u>                       | <u>\$ 11,157</u>                       | <u>\$ 2,423</u>                                      | <u>\$ (2,891)</u> | <u>\$ 18,419</u> |
| Total net revenues                                          | \$ 13,855                             | \$ 19,909                              | \$ 3,694                                             | \$ 2,891          | \$ 40,277        |
| Bad-debt expenses and provision<br>for losses on guarantees | (1,225)                               | (676)                                  | (1,547)                                              | (14)              | (3,462)          |
| Operating expenses                                          | <u>(3,725)</u>                        | <u>(9,616)</u>                         | <u>(1,590)</u>                                       | <u>(6,453)</u>    | <u>(21,384)</u>  |
| Income (loss) before income tax                             | <u>\$ 8,905</u>                       | <u>\$ 9,617</u>                        | <u>\$ 557</u>                                        | <u>\$ (3,648)</u> | <u>\$ 15,431</u> |

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED ENTITIES  
DECEMBER 31, 2017 AND 2016

Entities included in the consolidated financial statements

| Investor Company            | Investee Company                                                                                | Location                    | Businesses and Products                    | Percentage of Ownership (%) |                          | Note |
|-----------------------------|-------------------------------------------------------------------------------------------------|-----------------------------|--------------------------------------------|-----------------------------|--------------------------|------|
|                             |                                                                                                 |                             |                                            | December 31, 2017           | December 31, 2016        |      |
| E.SUN Commercial Bank, Ltd. | E.SUN Bank (China), Ltd.<br>Union Commercial Bank PLC.<br>BankPro E-Service Technology Co., Ltd | China<br>Cambodia<br>Taipei | Banking<br>Banking<br>Information software | 100.00<br>100.00<br>61.67   | 100.00<br>75.00<br>61.67 |      |
| Union Commercial Bank PLC.  | URE Land Holding Co., Ltd.                                                                      | Cambodia                    | Real estate leasing and management         | 90.00                       | 90.00                    | Note |

Entities did not include in the consolidated financial statements

| Investor Company | Investee Company | Location | Businesses and Products | Percentage of Ownership (%) |                   | Note |
|------------------|------------------|----------|-------------------------|-----------------------------|-------------------|------|
|                  |                  |          |                         | December 31, 2017           | December 31, 2016 |      |
| None             |                  |          |                         |                             |                   |      |

Note: Union Commercial Bank PLC. holds a 49% interest in URE Land Holding Co., Ltd. In the Articles of Incorporation of URE Land Holding Co., Ltd. Union Commercial Bank PLC. has power to control the composition of the board of directors and owns at least 90% of economic benefit of URE Land Holding Co., Ltd.; hence, URE Land Holding Co., Ltd. is deemed as a subsidiary of Union Commercial Bank PLC.

TABLE 2

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

RELATED-PARTY TRANSACTIONS  
 DECEMBER 31, 2017 AND 2016  
 (In Thousands of New Taiwan Dollars)

Loans

December 31, 2017

| Type                           | Account Volume or Name | Highest Balance for the Year Ended December 31, 2017 (Note) | Ending Balance | Loan Classification |                     | Collateral                                             | Differences in Terms of Transaction from Those for Unrelated Parties |
|--------------------------------|------------------------|-------------------------------------------------------------|----------------|---------------------|---------------------|--------------------------------------------------------|----------------------------------------------------------------------|
|                                |                        |                                                             |                | Normal Loans        | Nonperforming Loans |                                                        |                                                                      |
| Consumer loans                 | 147                    | \$ 83,826                                                   | \$ 53,553      | -                   | -                   | Land and buildings as collateral for part of the loans | None                                                                 |
| Self-used residential mortgage | 318                    | 1,562,984                                                   | 1,285,134      | 1,285,134           | -                   | Land and buildings                                     | None                                                                 |
| Other loans                    | Other loans            | 1,197,983                                                   | 849,757        | 849,757             | -                   | Land, buildings and plant                              | None                                                                 |
| Other loans                    | E.SUN Securities       | 28,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 21,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 16,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 31,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 35,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 18,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 14,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 6,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 9,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 3,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 31,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 12,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 6,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 27,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 4,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 35,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 12,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 13,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 7,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 8,500                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 20,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 14,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 15,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 2,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 15,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 25,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 12,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |

(Continued)

December 31, 2016

| Type                           | Account Volume or Name | Highest Balance for the Year Ended December 31, 2016 (Note) | Ending Balance | Loan Classification |                     | Collateral                                             | Differences in Terms of Transaction from Those for Unrelated Parties |
|--------------------------------|------------------------|-------------------------------------------------------------|----------------|---------------------|---------------------|--------------------------------------------------------|----------------------------------------------------------------------|
|                                |                        |                                                             |                | Normal Loans        | Nonperforming Loans |                                                        |                                                                      |
| Consumer loans                 | 114                    | \$ 54,477                                                   | \$ 37,022      | \$ 37,022           | -                   | Land and buildings as collateral for part of the loans | None                                                                 |
| Self-used residential mortgage | 273                    | 1,295,513                                                   | 1,081,953      | 1,081,953           | -                   | Land and buildings                                     | None                                                                 |
| Other loans                    | Other loans            | 906,039                                                     | 748,545        | 748,545             | -                   | Land, buildings, plant and other properties            | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 3,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 22,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 4,500                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 2,700                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 3,800                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 8,100                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 6,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 21,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 6,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 10,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 4,000                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 17,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 27,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 6,300                                                       | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 12,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 35,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 18,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |
| Other loans                    | E.SUN Securities       | 35,000                                                      | -              | -                   | -                   | Certificate of deposits                                | None                                                                 |

Note: The sum of the respective highest balances of each account for the years ended December 31, 2017 and 2016.

(Concluded)

**TABLE 3****E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES****INFORMATION ON FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES WITH SIGNIFICANT EFFECT  
DECEMBER 31, 2017 AND 2016  
(In Thousands)**

|                              | December 31        |               |                    |                    |               |                    |
|------------------------------|--------------------|---------------|--------------------|--------------------|---------------|--------------------|
|                              | 2017               |               |                    | 2016               |               |                    |
|                              | Foreign Currencies | Exchange Rate | New Taiwan Dollars | Foreign Currencies | Exchange Rate | New Taiwan Dollars |
| <u>Financial assets</u>      |                    |               |                    |                    |               |                    |
| USD                          | \$ 14,560,562      | 29.8480       | \$ 434,603,662     | \$ 12,354,538      | 32.2790       | \$ 398,792,132     |
| CNY                          | 11,206,307         | 4.5795        | 51,319,282         | 12,695,174         | 4.6218        | 58,674,555         |
| AUD                          | 1,869,017          | 23.2610       | 43,475,204         | 1,432,714          | 23.3180       | 33,408,025         |
| HKD                          | 5,487,895          | 3.8189        | 20,957,721         | 3,199,479          | 4.1622        | 13,316,871         |
| JPY                          | 23,767,972         | 0.2650        | 6,298,513          | 18,246,547         | 0.2758        | 5,032,398          |
| EUR                          | 151,976            | 35.6740       | 5,421,608          | 113,946            | 33.9250       | 3,865,618          |
| SGD                          | 150,963            | 22.3310       | 3,371,155          | 102,691            | 22.3150       | 2,291,550          |
| NZD                          | 6,331              | 21.2070       | 134,262            | 31,420             | 22.4310       | 704,782            |
| GBP                          | 15,364             | 40.2170       | 617,894            | 14,141             | 39.6320       | 560,436            |
| CHF                          | 2,597              | 30.5600       | 79,364             | 7,444              | 31.5720       | 235,022            |
| ZAR                          | 1,571,245          | 2.4215        | 3,804,770          | 731,694            | 2.3681        | 1,732,725          |
| CAD                          | 9,434              | 23.7780       | 224,322            | 5,143              | 23.9330       | 123,087            |
| SEK                          | 8,829              | 3.6197        | 31,958             | 5,704              | 3.5429        | 20,209             |
| THB                          | 70,996             | 0.9157        | 65,011             | 20,744             | 0.9019        | 18,709             |
| MXN                          | 23,149             | 1.5151        | 35,073             | 3,786              | 1.5588        | 5,902              |
| VND                          | 534,225,677        | 0.0013        | 694,493            | 349,659,483        | 0.0014        | 489,523            |
| MMK                          | 7,194,410          | 0.0219        | 157,558            | 75,552             | 0.0237        | 1,791              |
| <u>Financial liabilities</u> |                    |               |                    |                    |               |                    |
| USD                          | 19,832,468         | 29.8480       | 591,959,512        | 14,464,577         | 32.2790       | 466,902,081        |
| CNY                          | 15,778,691         | 4.5795        | 72,258,515         | 11,971,485         | 4.6218        | 55,329,809         |
| AUD                          | 1,290,870          | 23.2610       | 30,026,927         | 1,082,102          | 23.3180       | 25,232,454         |
| HKD                          | 3,558,981          | 3.8189        | 13,591,392         | 2,141,253          | 4.1622        | 8,912,323          |
| JPY                          | 58,914,811         | 0.2650        | 15,612,425         | 36,905,999         | 0.2758        | 10,178,675         |
| EUR                          | 197,925            | 35.6740       | 7,060,792          | 257,837            | 33.9250       | 8,747,120          |
| SGD                          | 57,243             | 22.3310       | 1,278,293          | 63,079             | 22.3150       | 1,407,608          |
| NZD                          | 187,956            | 21.2070       | 3,985,983          | 109,904            | 22.4310       | 2,465,257          |
| GBP                          | 55,567             | 40.2170       | 2,234,738          | 89,994             | 39.6320       | 3,566,642          |
| CHF                          | 5,846              | 30.5600       | 178,654            | 7,207              | 31.5720       | 227,539            |
| ZAR                          | 2,827,578          | 2.4215        | 6,846,980          | 2,323,844          | 2.3681        | 5,503,095          |
| CAD                          | 71,724             | 23.7780       | 1,705,453          | 124,587            | 23.9330       | 2,981,741          |
| SEK                          | 13,279             | 3.6197        | 48,066             | 19,342             | 3.5429        | 68,527             |
| THB                          | 23,919             | 0.9157        | 21,903             | 12,325             | 0.9019        | 11,116             |
| MXN                          | 39,970             | 1.5151        | 60,559             | 20,981             | 1.5588        | 32,705             |
| VND                          | 551,006,738        | 0.0013        | 716,309            | 351,553,135        | 0.0014        | 492,174            |
| MMK                          | 3,175,037          | 0.0219        | 69,533             | 37,984             | 0.0237        | 900                |

**E.SUN COMMERCIAL BANK, LTD.**

**ASSET QUALITY - NONPERFORMING LOANS AND RECEIVABLES  
DECEMBER 31, 2017 AND 2016  
(In Thousands of New Taiwan Dollars, %)**

| Period<br>Items                                                                                      | December 31, 2017                  |                |                                                |                                              | December 31, 2016                  |                |                                                |                                              |                            |
|------------------------------------------------------------------------------------------------------|------------------------------------|----------------|------------------------------------------------|----------------------------------------------|------------------------------------|----------------|------------------------------------------------|----------------------------------------------|----------------------------|
|                                                                                                      | Nonperforming<br>Loans<br>(Note 1) | Loans          | Ratio of<br>Nonperforming<br>Loans<br>(Note 2) | Allowance for<br>Possible Losses<br>(Note 3) | Nonperforming<br>Loans<br>(Note 1) | Loans          | Ratio of<br>Nonperforming<br>Loans<br>(Note 2) | Allowance for<br>Possible Losses<br>(Note 3) | Coverage Ratio<br>(Note 3) |
| Corporate Banking                                                                                    | \$ 907,153                         | \$ 305,278,205 | 0.30                                           | \$ 3,387,901                                 | \$ 411,832                         | \$ 258,887,774 | 0.16                                           | \$ 2,847,198                                 | 691.35                     |
|                                                                                                      | 217,153                            | 303,256,415    | 0.07                                           | 3,627,197                                    | 219,654                            | 297,017,890    | 0.07                                           | 3,459,253                                    | 1,574.86                   |
| Housing mortgage (Note 4)                                                                            | 568,475                            | 285,657,415    | 0.20                                           | 4,115,717                                    | 489,821                            | 276,059,502    | 0.18                                           | 3,969,853                                    | 810.47                     |
| Cash card                                                                                            | 72                                 | 2,769          | 2.60                                           | 1,175                                        | 188                                | 3,767          | 4.99                                           | 1,596                                        | 848.94                     |
| Consumer Banking                                                                                     | 507,310                            | 97,270,544     | 0.52                                           | 1,147,556                                    | 601,347                            | 91,293,797     | 0.66                                           | 1,098,611                                    | 182.69                     |
|                                                                                                      | 581,049                            | 205,747,555    | 0.28                                           | 2,145,817                                    | 362,778                            | 181,905,038    | 0.20                                           | 1,859,213                                    | 512.49                     |
| Other (Note 6)                                                                                       | 39,676                             | 6,762,733      | 0.59                                           | 77,790                                       | 26,871                             | 6,785,699      | 0.40                                           | 69,561                                       | 258.87                     |
| Loan                                                                                                 | 2,820,888                          | 1,203,975,636  | 0.23                                           | 14,502,953                                   | 2,112,491                          | 1,111,953,467  | 0.19                                           | 13,305,285                                   | 629.84                     |
|                                                                                                      |                                    |                |                                                |                                              |                                    |                |                                                |                                              |                            |
| Credit cards                                                                                         | 142,747                            | 60,652,043     | 0.24                                           | 973,592                                      | 147,276                            | 55,698,347     | 0.26                                           | 1,232,146                                    | 836.62                     |
| Accounts receivable factored without recourse (Note 7)                                               | -                                  | 15,036,201     | -                                              | 200,219                                      | 177                                | 12,186,866     | -                                              | 148,566                                      | 83,935.59                  |
| Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)       |                                    |                | 17,631                                         |                                              |                                    |                | 23,148                                         |                                              |                            |
| Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8) |                                    |                | 71,945                                         |                                              |                                    |                | 88,011                                         |                                              |                            |
| Amounts of executed debt-restructuring projects not reported as nonperforming loans (Note 9)         |                                    |                | 1,131,029                                      |                                              |                                    |                | 996,008                                        |                                              |                            |
| Amounts of executed debt-restructuring projects not reported as nonperforming receivables (Note 9)   |                                    |                | 1,333,008                                      |                                              |                                    |                | 1,190,354                                      |                                              |                            |

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."  
Nonperforming receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loans balance.  
Ratio of nonperforming receivables: Nonperforming receivables ÷ Outstanding receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.  
Coverage ratio of receivables: Allowance for possible losses for receivables ÷ Nonperforming receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumers' banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Note 8: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 9: Amounts of executed debt-restructuring projects not reported as nonperforming loans or receivables are disclosed to the public in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940) and September 20, 2016 (Ref. No. 10500134790).

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Company Name                | Type and Name of Marketable Securities | Financial Statement Account           | Counterparty       | Relationship | Beginning Balance |              | Acquisition    |                                 | Disposal |        | Ending Balance                  |        |                          |
|-----------------------------|----------------------------------------|---------------------------------------|--------------------|--------------|-------------------|--------------|----------------|---------------------------------|----------|--------|---------------------------------|--------|--------------------------|
|                             |                                        |                                       |                    |              | Shares            | Amount       | Shares         | Amount                          | Shares   | Amount | Shares                          | Amount | Gain (Loss) on Disposal  |
| E.SUN Commercial Bank, Ltd. | Union Commercial Bank (UBC)            | Equity investment under equity method | Mr. Ren<br>Mr. Ren | -            | 28                | \$ 2,310,299 | 52<br>(Note 1) | \$ 2,507,749<br>(Notes 2 and 3) | -        | \$ -   | \$ 1,529,381<br>(Notes 2 and 3) | 80     | \$ 3,288,667<br>(Note 3) |

Note 1: Consisting of 9 thousand shares from non-controlling interests and 43 thousand shares from issuance for cash. The amendment to the Article of Incorporation related to capital increase is still awaiting for approval of authorities in Cambodia.

Note 2: Acquisition consists of \$1,221,457 thousand acquisition costs, \$1,284,414 thousand due to capital increase, and \$1,878 thousand as the unrealized gains on available for sale financial assets from equity investment under the equity method, disposal consists of \$528,421 thousand as the net loss from equity investment under the equity method, \$184,122 thousand as the exchange differences on the translation of financial statements of foreign operations from equity investment under the equity method, and \$816,838 thousand as the adjustment of actual acquisition of interest in subsidiary.

Note 3: When preparing the consolidated financial statements, the amount had been eliminated.

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Name                        | Property                                                                           | Transaction Date         | Transaction Amount       | Payment Term/ Payment Status                              | Counterparty                                     | Nature of Relationship | Prior Transaction of Related Counterparty |              |               | Price Reference                                                                               | Purpose of Acquisition | Other Terms |
|-----------------------------|------------------------------------------------------------------------------------|--------------------------|--------------------------|-----------------------------------------------------------|--------------------------------------------------|------------------------|-------------------------------------------|--------------|---------------|-----------------------------------------------------------------------------------------------|------------------------|-------------|
|                             |                                                                                    |                          |                          |                                                           |                                                  |                        | Owner                                     | Relationship | Transfer Date |                                                                                               |                        |             |
| E.SUN Commercial Bank, Ltd. | Construction of new building for the operation of credit card and payment division | 2013.06.21<br>2016.06.29 | \$ 1,592,000<br>(Note 1) | \$1,592,000 has been paid as of December 31, 2017         | Hsin Tung Yang Construction Co., Ltd.            | -                      | -                                         | -            | Bid           | For the operation of the Bank's credit card and payment division after construction completed | None                   |             |
| Union Commercial Bank Plc.  | Construction of new building for the operation of UCB's head office                | 2014.12.18               | US\$ 21,835 thousand     | US\$15,151 thousand has been paid as of December 31, 2017 | LBL International                                | -                      | -                                         | -            | Negotiation   | For the operation of UCB's head office                                                        | None                   |             |
| E.SUN Commercial Bank, Ltd. | Construction of new building for Yiwen branch of the Bank                          | 2015.06.12<br>2017.11.28 | 402,195<br>(Note 2)      | \$371,420 has been paid as of December 31, 2017           | Zhongli Construction Co., Ltd., Mr. Lee, Mr. Lee | -                      | -                                         | -            | Appraisal     | For relocating the branch of the Bank                                                         | None                   |             |
| E.SUN Commercial Bank, Ltd. | Land of Lingzhou section, Kaohsiung                                                | 2017.03.22               | 490,000                  | \$490,000 has been paid as of December 31, 2017           | Mr. Lin                                          | -                      | -                                         | -            | Appraisal     | For relocating the branch of the Bank                                                         | None                   |             |
| E.SUN Commercial Bank, Ltd. | Wen Hsin Branch                                                                    | 2017.11.01               | 416,000                  | \$49,920 has been paid as of December 31, 2017            | Chuan Mu Construction Department Inc.            | -                      | -                                         | -            | Appraisal     | For relocating the branch of the Bank                                                         | None                   |             |

Note 1: The initial transaction amount was \$1,498,000 thousand, and an additional amount of \$94,000 thousand was added to the construction on June 29, 2016.

Note 2: The initial transaction amount was \$410,800 thousand and \$8,605 thousand was decreased due to the adjustment of actual construction area.

## E.SUN COMMERCIAL BANK, LTD.

INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEEES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars)

| Investor Company                       | Investee Company                                                  | Location               | Main Businesses and Products           | Percentage of Ownership | Carrying Value | Investment Gain | Proportionate Share of the Bank and its Affiliates in Investees (Note 1) |                           |                          | Note   |
|----------------------------------------|-------------------------------------------------------------------|------------------------|----------------------------------------|-------------------------|----------------|-----------------|--------------------------------------------------------------------------|---------------------------|--------------------------|--------|
|                                        |                                                                   |                        |                                        |                         |                |                 | Shares (Thousands)                                                       | Pro Forma Shares (Note 2) | Total Shares (Thousands) |        |
| E.SUN Commercial Bank, Ltd. (the Bank) | Finance-related business                                          |                        |                                        |                         |                |                 |                                                                          |                           |                          |        |
|                                        | Taipei Forex Inc.                                                 | Taipei                 | Foreign exchange brokering             | 0.81                    | \$ 2,000       | \$ 640          | -                                                                        | 160                       | 0.81                     |        |
|                                        | Taiwan Futures Exchange Co., Ltd.                                 | Taipei                 | Futures clearing                       | 0.45                    | 9,000          | 3,029           | -                                                                        | 1,418                     | 0.45                     |        |
|                                        | Financial Information Service Co., Ltd.                           | Taipei                 | Information service                    | 2.28                    | 108,954        | 30,876          | -                                                                        | 11,876                    | 2.28                     |        |
|                                        | Taiwan Asset Management Corporation                               | Taipei                 | Acquisition of delinquent loans        | 0.57                    | 75,000         | 6,020           | -                                                                        | 7,500                     | 0.57                     |        |
|                                        | Taiwan Financial Asset Service Corporation                        | Taipei                 | Property auction                       | 2.94                    | 50,000         | 100             | -                                                                        | 5,000                     | 2.94                     |        |
|                                        | Taiwan Finance Corp.                                              | Taipei                 | Bills financing                        | 0.41                    | 21,355         | 986             | -                                                                        | 2,120                     | 0.41                     |        |
|                                        | Sunny Asset Management Co.                                        | Taipei                 | Acquisition of delinquent loans        | 4.35                    | 2,607          | 303             | -                                                                        | 261                       | 4.35                     |        |
|                                        | Taiwan Mobile Payment Co.                                         | Taipei                 | Information software service           | 3.00                    | 18,000         | -               | -                                                                        | 1,800                     | 3.00                     | Note 3 |
|                                        | BankPro E-Service Technology Co., Ltd.                            | Taipei                 | Retail sale of software                | 61.67                   | 245,357        | 21,743          | -                                                                        | 8,650                     | 64.07                    | Note 4 |
|                                        | Union Commercial Bank Plc.                                        | Phnom Penh<br>Cambodia | Commercial banking                     | 100.00                  | 3,288,667      | (528,421)       | -                                                                        | 80                        | 100.00                   | Note 4 |
|                                        | E.SUN Bank (China), Ltd.                                          | Shenzhen,<br>China     | Commercial banking                     | 100.00                  | 9,092,284      | (346,969)       | -                                                                        | -                         | 100.00                   | Note 5 |
|                                        | Non-finance-related business                                      |                        |                                        |                         |                |                 |                                                                          |                           |                          |        |
|                                        | Taiwan Incubator Small & Medium Enterprises Development Co., Ltd. | Taipei                 | Small and medium enterprise incubation | 3.44                    | 18,171         | -               | -                                                                        | 2,425                     | 3.44                     |        |
|                                        | EASYCARD Investment Holding Co., Ltd.                             | Taipei                 | Investment                             | 4.82                    | 218,951        | 6,299           | -                                                                        | 5,013                     | 4.82                     |        |
| Alliance Digital Tech Co.              | Taipei                                                            | Information service    | 2.16                                   | 9,000                   | -              | -               | 900                                                                      | 2.16                      |                          |        |

Note 1: Shares or pro forma shares held by the Bank, directors, supervisors, president, vice president and affiliates have been included in accordance with the Company Act.

Note 2: a. Pro forma shares are shares that are assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.

b. Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of "Securities and Exchange Law Enforcement Rules."

c. Derivative contracts, such as stock options, are those conforming to the definition of derivatives in International Accounting Standards No. 39.

Note 3: For more information on BankPro E-Service Technology Co., Ltd., please refer to Note 45.

Note 4: For more information on Union Commercial Bank, please refer to Note 44.

Note 5: For more information on E.SUN Bank (China), Ltd., please refer to Note 47.

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

| Investee Company Name    | Main Businesses and Products                                               | Total Amount of Paid-in Capital | Investment Type | Accumulated Outflow of Investment from January 1, 2017 | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of December 31, 2017 | % Ownership of Direct or Indirect Investment | Investment Loss | Carrying Value as of December 31, 2017 | Accumulated Inward Remittance of Earnings as of December 31, 2017 |
|--------------------------|----------------------------------------------------------------------------|---------------------------------|-----------------|--------------------------------------------------------|------------------|--------|-----------------------------------------------------------------------|----------------------------------------------|-----------------|----------------------------------------|-------------------------------------------------------------------|
|                          |                                                                            |                                 |                 |                                                        | Outflow          | Inflow |                                                                       |                                              |                 |                                        |                                                                   |
| E.SUN Bank (China), Ltd. | Deposits, loans, import and export, exchange and foreign exchange business | \$ 9,758,742<br>(Note 1)        | Direct          | \$ 9,758,742                                           | \$ -             | \$ -   | \$ 9,758,742<br>(Note 1)                                              | 100                                          | \$ (346,969)    | \$ 9,092,284                           | \$ -                                                              |

| Accumulated Investment in Mainland China as of December 31, 2017 | Investment Amount Approved by the Investment Commission, MOEA | Maximum Investment Allowable (Note 2) |
|------------------------------------------------------------------|---------------------------------------------------------------|---------------------------------------|
| \$9,758,742<br>(Note 1)                                          | \$9,758,742<br>(Note 1)                                       | \$88,354,661                          |

Note 1: Translation into New Taiwan dollars at the spot rates on the dates of investment outflow from Taiwan.

Note 2: Based on the Investment Commission's "Regulation on the Examination of Investment or Technical Cooperation in Mainland China," investments are limited to larger of 60% of the Bank's net assets value or 60% of the Company's consolidated net assets value.

## E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT COMPANY AND SUBSIDIARIES  
FOR THE YEAR ENDED DECEMBER 31, 2017  
(In Thousands of New Taiwan Dollars)

| No.<br>(Note 1) | Transaction Company         | Counterparty                | Transaction Flow<br>(Note 2) | Description of Transactions (Notes 3 and 5)             |            |               | Transaction<br>Amount/Total<br>Consolidated Net<br>Revenue or Total<br>Consolidated Assets<br>(%) |
|-----------------|-----------------------------|-----------------------------|------------------------------|---------------------------------------------------------|------------|---------------|---------------------------------------------------------------------------------------------------|
|                 |                             |                             |                              | Financial Statement Account                             | Amounts    | Trading Terms |                                                                                                   |
| 0               | E.SUN Commercial Bank, Ltd. | Union Commercial Bank PLC.  | a                            | Due to the Central Bank and other banks                 | \$ 337,254 | Note 4        | 0.02                                                                                              |
| 1               | Union Commercial Bank PLC.  | E.SUN Commercial Bank, Ltd. | b                            | Cash and cash equivalents                               | 337,254    | Note 4        | 0.02                                                                                              |
| 0               | E.SUN Commercial Bank, Ltd. | Union Commercial Bank PLC.  | a                            | Discounts and loans                                     | 3,269,508  | Note 4        | 0.16                                                                                              |
| 1               | Union Commercial Bank PLC.  | E.SUN Commercial Bank, Ltd. | b                            | Other financial liabilities                             | 3,269,508  | Note 4        | 0.16                                                                                              |
| 0               | E.SUN Commercial Bank, Ltd. | E.SUN Bank (China), Ltd.    | a                            | Due from the Central Bank and call loans to other banks | 8,222,552  | Note 4        | 0.40                                                                                              |
| 2               | E.SUN Bank (China), Ltd.    | E.SUN Commercial Bank, Ltd. | b                            | Due to the Central Bank and other banks                 | 8,222,552  | Note 4        | 0.40                                                                                              |
| 0               | E.SUN Commercial Bank, Ltd. | E.SUN Bank (China), Ltd.    | a                            | Interest revenue                                        | 150,248    | Note 4        | 0.33                                                                                              |
| 2               | E.SUN Bank (China), Ltd.    | E.SUN Commercial Bank, Ltd. | b                            | Interest expense                                        | 150,248    | Note 4        | 0.33                                                                                              |

Note 1: The parent company and subsidiaries are numbered as follows:

- a. Parent company: 0
- b. Subsidiaries are numbered in an order starting from 1.

Note 2: Transaction flows are as follows:

- a. From parent company to subsidiary,
- b. From subsidiary to parent company, and
- c. Between subsidiaries.

Note 3: For calculating the percentages, asset or liability account is divided by the total consolidated assets and the revenue or expense account is divided by the total consolidated net revenue of the same period.

Note 4: The terms for the transactions between the transaction companies and related parties are similar to those for unrelated parties.

Note 5: Referring to transactions exceeding \$100,000 thousand.





## Gratefulness for Glorious Moments

### E.SUN's glories and honors in 2017

- **Achievement Award, Best Bank in Asia Pacific** (The Asian Banker)
- **The only Taiwanese financial institute to be included in DJSI for the 4th consecutive year**
- **Third time winner of Best Bank in Taiwan** (The Asset)  
**Best Bank in Taiwan** (Global Finance)
- **Tenth time winner of CSR Award and No. 1 in financial sector** (Wealth Magazine)
- **Third time winner of CSR Award in financial sector** (Global View Magazine)

E.SUN Commercial Bank, Ltd.



Chairman of the Board



March 20, 2018 Printed

**With our Heartfelt Appreciation and Eternal Blessing.**





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