

DBS BANK (TAIWAN) LTD

FINANCIAL STATEMENTS
AND
REPORT OF INDEPENDENT ACCOUNTANTS

DECEMBER 31, 2016 AND 2015

For the convenience of readers and for information purpose only, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

Report of Independent Accountants Translated from Chinese

PWCR16000203

To the Board of Directors of DBS Bank (Taiwan) Ltd

Our opinion

We have audited the accompanying balance sheets of DBS Bank (Taiwan) Ltd (the “Company”) as at December 31, 2016, December 31, 2015 and January 1, 2015 and the related statements of comprehensive income, of changes in equity, and of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, December 31, 2015 and January 1, 2015, and its financial performance and its cash flows for the years then ended in accordance with “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, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

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

Emphasis of matter

As described in Note 12(8), the Company acquired DBS Insurance Agency (Taiwan) Ltd with an effective date of December 24, 2016. The above-mentioned transaction is an organizational restructure between the entities under common control. Thus, when preparing comparative financial statements, the prior year financial statements have been retrospectively restated as if these entities had always been combined in



accordance with related regulations. Our opinion is not modified in respect of this matter.

Key audit matters

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

Impairment assessment of bills discounted and loans

Description

For the accounting policy for the assessment, provision, and reversal of bills discounted and loans impairment, please refer to Note 4(8); for the critical accounting estimates and assumption uncertainty of impairment losses of bills discounted and loans, please refer to Note 5; for details on bills discounted and loans, please refer to Note 6(6). The Company's gross bills discounted and loans and its allowance for credit losses as at December 31, 2016, was NT \$200,904,247 thousand and NT \$3,120,789 thousand, respectively.

The Company's impairment assessment of bills discounted and loans is pursuant to IAS 39, 'Financial Instruments: Recognition and Measurement', "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", and related requirements of administrative orders promulgated by the competent authority. Because impairment assessment of bills discounted and loans involves management's professional judgment, assumptions, and estimates (e.g. assumption of the borrower's future cash flows and estimation of collateral value) and these amounts were material with respect to the total assets, we have thus assessed the impairment of the Company's bills discounted and loans as the key audit matter and focused on those positions with individual objective evidence of impairment.

How our audit addressed the matter

We obtained and reviewed the Company's internal control policies and procedures related to its credit risk management and impairment assessment of bills discounted and loans. We sample tested key internal controls with regard to management's impairment assessment. This included the mechanisms such as management's periodic oversight of bank-wide credit risk, timely review of credits, management of collateral, and control for the assessment, provision, and approval of allowance for credit losses. We performed the following procedures on bills discounted and loans as at December



31, 2016: examined the classification and parameters such as the impairment loss rate of bills discounted and loans; reviewed management’s review reports; assessed the reasonableness of assumptions and collateral values used by management to estimate expected future cash flows; and assessed whether the provision of allowance for credit losses comply with the competent authority’s related regulations.

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

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

In preparing the financial statements, management is responsible for assessing the 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 audit committee, are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



資誠

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

Kuo, Puo-Ju

Huang, King-Tse

For and on behalf of PricewaterhouseCoopers, Taiwan

March 21, 2017

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

As the financial statements are the responsibility of the management, PricewaterhouseCoopers, Taiwan cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

DBS BANK (TAIWAN) LTD
BALANCE SHEETS
DECEMBER 31, 2016, DECEMBER 31, 2015 AND JANUARY 1, 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| ASSETS | Notes | December 31, 2016 | | (RESTATED) December 31, 2015 | | (RESTATED) January 1, 2015 | | |
|-------------------------------|---|-------------------|-----------------------|---------------------------------|-----------------------|-------------------------------|-----------------------|------------|
| | | Amount | % | Amount | % | Amount | % | |
| ASSETS | | | | | | | | |
| 11000 | Cash and cash equivalents | 6(1) and 7 | \$ 7,534,342 | 2 | \$ 11,007,792 | 3 | \$ 13,720,087 | 4 |
| 11500 | Due from Central Bank and call loans to other banks | 6(2) and 7 | 52,778,631 | 15 | 20,879,659 | 6 | 6,046,637 | 2 |
| 12000 | Financial assets at fair value through profit or loss | 6(3) and 7 | 18,011,541 | 5 | 30,029,750 | 8 | 27,906,701 | 8 |
| 12500 | Investment in bills and bonds under reverse repurchase agreements | 6(4) | 282,870 | - | - | - | - | - |
| 13000 | Receivables – net | 6(5)(6) and 7 | 19,941,629 | 6 | 13,963,763 | 4 | 14,712,629 | 4 |
| 13200 | Current income tax assets | | 60,648 | - | 60,072 | - | 5,345 | - |
| 13300 | Assets held for sale | 6(9) | - | - | - | - | 435,055 | - |
| 13500 | Bills discounted and loans – net | 6(6) and 7 | 197,783,458 | 55 | 200,636,453 | 55 | 202,604,915 | 60 |
| 14000 | Available-for-sale financial assets | 6(7) and 8 | 58,299,515 | 16 | 82,234,145 | 22 | 68,969,841 | 21 |
| 15500 | Other financial assets – net | 6(8) | 194,117 | - | 178,370 | - | 146,267 | - |
| 18500 | Property and equipment – net | 6(9) | 938,105 | - | 1,021,315 | - | 965,478 | - |
| 18700 | Investment properties – net | 6(10) | 142,708 | - | 144,148 | - | 244,233 | - |
| 19000 | Intangible assets – net | 6(11) | 154,223 | - | 153,670 | - | 117,626 | - |
| 19300 | Deferred income tax assets | 6(33) | 104,347 | - | 76,824 | - | 63,695 | - |
| 19500 | Other assets – net | 6(12) and 7 | 2,557,168 | 1 | 7,235,516 | 2 | 1,794,336 | 1 |
| | TOTAL ASSETS | | \$ 358,783,302 | 100 | \$ 367,621,477 | 100 | \$ 337,732,845 | 100 |
| LIABILITIES AND EQUITY | | | | | | | | |
| LIABILITIES | | | | | | | | |
| 21000 | Due to Central Bank and other banks | 6(13) and 7 | \$ 12,429,442 | 3 | \$ 47,063,305 | 13 | \$ 55,964,368 | 17 |
| 22000 | Financial liabilities at fair value through profit or loss | 6(14) and 7 | 10,777,612 | 3 | 11,982,727 | 3 | 7,724,085 | 2 |
| 22500 | Investment in bills and bonds under repurchase agreements | 6(4) | 202,811 | - | - | - | - | - |
| 23000 | Payables | 6(15) and 7 | 3,829,822 | 1 | 8,721,113 | 2 | 8,841,388 | 3 |
| 23200 | Current income tax liabilities | | 17,332 | - | 23,257 | - | 67,282 | - |
| 23500 | Deposits and remittances | 6(16) and 7 | 296,268,302 | 83 | 263,539,803 | 72 | 237,520,049 | 70 |
| 25500 | Other financial liabilities | 6(17) | 2,281,929 | 1 | 2,785,774 | 1 | 2,752,295 | 1 |
| 25600 | Provisions | 6(18) | 226,759 | - | 256,914 | - | 283,051 | - |
| 29300 | Deferred income tax liabilities | 6(33) | 15,840 | - | 55,139 | - | - | - |
| 29500 | Other liabilities | 6(20) | 882,261 | - | 826,129 | - | 737,024 | - |
| | TOTAL LIABILITIES | | 326,932,110 | 91 | 335,254,161 | 91 | 313,889,542 | 93 |
| EQUITY | | | | | | | | |
| 31100 | Share capital | | | | | | | |
| 31101 | Common shares | 6(21) | 22,000,000 | 6 | 22,000,000 | 6 | 22,000,000 | 7 |
| 31103 | Preferred shares | 6(21) | 8,000,000 | 2 | 8,000,000 | 2 | - | - |
| 32000 | Retained earnings | 6(22) | | | | | | |
| 32001 | Legal reserve | | 526,554 | - | 433,357 | - | 331,269 | - |
| 32011 | Retained earnings | | 1,186,101 | 1 | 1,299,097 | 1 | 1,093,073 | - |
| 32500 | Other equity | 6(23) | 138,537 | - | 218,963 | - | 115,394 | - |
| 36000 | Former equity under common control | 12(9) | - | - | 415,899 | - | 303,567 | - |
| | TOTAL EQUITY | | 31,851,192 | 9 | 32,367,316 | 9 | 23,843,303 | 7 |
| | TOTAL LIABILITIES AND EQUITY | | \$ 358,783,302 | 100 | \$ 367,621,477 | 100 | \$ 337,732,845 | 100 |

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

DBS BANK (TAIWAN) LTD
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

| | | | | (RESTATED) | |
|-------|---|--------------------|-------------|--------------------|------------|
| | | For the year ended | | For the year ended | |
| | | December 31, 2016 | | December 31, 2015 | |
| | Notes | Amount | % | Amount | % |
| 41000 | Interest income | \$ 5,997,880 | 92 | \$ 6,497,360 | 96 |
| 51000 | Less: Interest expense | (2,261,893) | (35) | (2,870,132) | (42) |
| | Net interest income | 3,735,987 | 57 | 3,627,228 | 54 |
| | Net non-interest income | | | | |
| 49100 | Net fee and commission income | 1,674,356 | 26 | 1,400,240 | 21 |
| 49200 | Gains or losses on financial assets and financial liabilities at fair value through profit or loss | 173,317 | 3 | 620,621 | 9 |
| 49300 | Realised gains or losses on available-for-sale financial assets | 18,527 | - | 2,629 | - |
| 49600 | Foreign exchange gains | 873,764 | 13 | 859,418 | 13 |
| 48063 | Gains on disposal of assets | 21,489 | - | 193,907 | 3 |
| 49800 | Other non-interest income | 42,061 | 1 | 46,659 | - |
| | Net revenues | 6,539,501 | 100 | 6,750,702 | 100 |
| 58200 | Bad debts expense and reserve on guarantee liabilities | (872,796) | (13) | (1,005,930) | (15) |
| | Operating expenses | | | | |
| 58500 | Employee benefit expenses | (3,071,165) | (47) | (2,970,863) | (44) |
| 59000 | Depreciation and amortisation expenses | (202,854) | (3) | (239,162) | (3) |
| 59500 | Other general and administrative expenses | (1,928,939) | (30) | (2,014,805) | (30) |
| 61001 | Income before income tax | 463,747 | 7 | 519,942 | 8 |
| 61003 | Income tax expense | (42,141) | (1) | (96,952) | (2) |
| 64000 | Net income | 421,606 | 6 | 422,990 | 6 |
| | Other Comprehensive Income | | | | |
| | Not reclassifiable to profit or loss | | | | |
| 65201 | Remeasurement arising on defined benefit plan | 7,161 | - | (3,067) | - |
| 65205 | Change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to changes in its credit risk | 41,919 | 1 | (9,035) | - |
| 65220 | Income tax related to other comprehensive income not reclassifiable to profit or loss | (1,217) | - | 521 | - |
| | Potentially reclassifiable to profit or loss | | | | |
| 65301 | Foreign currency translation differences for foreign operations | (27,371) | - | 54,937 | 1 |
| 65302 | Available-for-sale revaluation reserve | (94,974) | (2) | 57,667 | 1 |
| 65000 | Other comprehensive income – net | (74,482) | (1) | 101,023 | 2 |
| 66000 | Total comprehensive income | \$ 347,124 | 5 | \$ 524,013 | 8 |

(Continued)

DBS BANK (TAIWAN) LTD
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT FOR EARNINGS PER SHARE)

| | | For the year ended | | (RESTATED) | |
|--|---|--------------------|-------------|-------------------|----------|
| | | December 31, 2016 | | December 31, 2015 | |
| | Notes | Amount | % | Amount | % |
| Net income attributable to: | | | | | |
| 67101 | Parent company | \$ 277,599 | 4 | \$ 310,658 | 4 |
| 67105 | Former equity under common control | 144,007 | 2 | 112,332 | 2 |
| | | <u>\$ 421,606</u> | <u>6</u> | <u>\$ 422,990</u> | <u>6</u> |
| Total comprehensive income attributable to: | | | | | |
| 67301 | Parent company | \$ 203,117 | 3 | \$ 411,681 | 6 |
| 67305 | Former equity under common control | 144,007 | 2 | 112,332 | 2 |
| | | <u>\$ 347,124</u> | <u>5</u> | <u>\$ 524,013</u> | <u>8</u> |
| Earnings Per Share (in New Taiwan dollars) | | | | | |
| | Basic and diluted earnings per share | 6(34) | <u>0.13</u> | \$ | <u>-</u> |

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

DBS BANK (TAIWAN) LTD
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Share capital | | Retained earnings | | Other equity | | | Former equity under common control | Total equity |
|--|---------------|------------------|-------------------|-------------------|---|--|---|------------------------------------|---------------|
| | Common shares | Preferred shares | Legal reserve | Retained earnings | Foreign currency translation differences for foreign operations | Available-for-sale revaluation reserve | Change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to changes in its credit risk | | |
| (RESTATEd) | | | | | | | | | |
| For the year ended December 31, 2015 | | | | | | | | | |
| Balance as of January 1, 2015 (Before restated) | \$ 22,000,000 | \$ - | \$ 331,269 | \$ 1,093,073 | \$ 80,589 | \$ 34,805 | \$ - | \$ - | \$ 23,539,736 |
| Effect of retrospective application for reorganizational restructure | - | - | - | - | - | - | - | - | - |
| Former equity under common control | 22,000,000 | - | 331,269 | 1,093,073 | 80,589 | 34,805 | - | 303,567 | 303,567 |
| Balance as of January 1, 2015 (Restated) | - | - | - | - | - | - | - | - | - |
| Appropriation of net income for 2014 | - | - | 102,088 | (102,088) | - | - | - | - | - |
| Legal reserve | - | - | - | - | - | - | - | - | - |
| Issuance of preferred shares | - | 8,000,000 | - | - | - | - | - | - | 8,000,000 |
| Net income | - | - | - | 310,658 | - | - | - | 112,332 | 422,990 |
| Other comprehensive income (loss) | - | - | - | (2,546) | 54,937 | 57,667 | (9,035) | - | 101,023 |
| Balance as of December 31, 2015 | \$ 22,000,000 | \$ 8,000,000 | \$ 433,357 | \$ 1,299,097 | \$ 135,526 | \$ 92,472 | \$ (9,035) | \$ 415,899 | \$ 32,367,316 |
| For the year ended December 31, 2016 | | | | | | | | | |
| Balance as of January 1, 2016 | \$ 22,000,000 | \$ 8,000,000 | \$ 433,357 | \$ 1,299,097 | \$ 135,526 | \$ 92,472 | \$ (9,035) | \$ 415,899 | \$ 32,367,316 |
| Effects of reorganizational restructure | - | - | - | - | - | - | - | (559,906) | (559,906) |
| Appropriation of net income for 2015 | - | - | 93,197 | (93,197) | - | - | - | - | - |
| Legal reserve | - | - | - | - | - | - | - | - | - |
| Cash dividends – Preferred shares | - | - | - | (303,342) | - | - | - | - | (303,342) |
| Net income | - | - | - | 277,599 | - | - | - | 144,007 | 421,606 |
| Other comprehensive income (loss) | - | - | - | 5,944 | (27,371) | (94,974) | 41,919 | - | (74,482) |
| Balance as of December 31, 2016 | \$ 22,000,000 | \$ 8,000,000 | \$ 526,554 | \$ 1,186,101 | \$ 108,155 | \$ (2,502) | \$ 32,884 | \$ - | \$ 31,851,192 |

Note: Employees' compensation amounting to \$5 and \$2 for the years 2015 and 2014 have been recognised under operating expenses of statements of comprehensive income, not "Appropriation of earnings."

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

DBS BANK (TAIWAN) LTD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS)

| | Notes | For the year ended December 31, 2016 | (RESTATED) For the year ended December 31, 2015 |
|---|-------|---|---|
| Cash Flows From Operating Activities | | | |
| Income before income tax | | \$ 463,747 | \$ 519,942 |
| Adjustment items | | | |
| Income and expenses items | | | |
| Bad debts expense and reserve on guarantee liabilities | | 1,121,217 | 1,203,318 |
| Depreciation expense (including investment properties' depreciation expense) | 6(31) | 146,935 | 185,685 |
| Amortisation expense | 6(31) | 55,919 | 53,477 |
| Interest income | | (5,997,880) | (6,497,360) |
| Dividend income | | (17,015) | (13,692) |
| Interest expense | | 2,261,893 | 2,870,132 |
| Gains from disposal of property and equipment, assets held for sale and investment properties | 6(9) | (21,489) | (193,907) |
| Losses from retirement of property and equipment and intangible assets | | 2,320 | 2,045 |
| Realised gain on available-for-sale financial assets | | (18,527) | (2,629) |
| Change in assets/liabilities relating to operating activities | | | |
| Change in assets relating to operating activities | | | |
| Increase in due from Central Bank and call loans to other banks | | (274,788) | (470,874) |
| Decrease (increase) in financial assets at fair value through profit or loss | | 12,251,375 | (2,123,049) |
| (Increase) decrease in receivables | | (6,909,383) | 803,971 |
| Decrease in bills discounted and loans | | 2,183,653 | 862,839 |
| Decrease (increase) in available-for-sale financial assets | | 23,858,183 | (13,204,008) |
| Increase in other financial assets | | (15,794) | (32,259) |
| Decrease (increase) in other assets | | 4,678,348 | (5,441,180) |
| Change in liabilities relating to operating activities | | | |
| Decrease in due to Central Bank and other banks | | (34,633,863) | (8,901,063) |
| (Decrease) increase in financial liabilities at fair value through profit or loss | | (1,163,196) | 2,299,307 |
| Decrease in payables | | (4,821,939) | (107,930) |
| Increase in deposits and remittances | | 32,728,499 | 26,019,754 |
| (Decrease) increase in other financial liabilities | | (503,845) | 33,479 |
| Increase (decrease) in other liabilities | | 77,267 | (101,106) |
| Increase (decrease) in provisions | | 11,048 | (12,932) |
| Cash generated from (used in) operations | | 25,462,685 | (2,248,040) |
| Interest paid | | (2,331,245) | (2,882,477) |
| Income tax paid | | (116,681) | (153,173) |
| Interest received | | 6,238,549 | 6,290,213 |
| Dividend received | | 17,015 | 13,692 |
| Net cash generated from operating activities | | 29,270,323 | 1,020,215 |
| Cash Flows From Investing Activities | | | |
| Acquisition of property and equipment | | (62,825) | (238,752) |
| Proceeds from disposal of property and equipment, assets held for sale and investment properties | | 414 | 917,258 |
| Acquisition of intangible assets | | (56,479) | (89,441) |
| Cash paid for reorganizational restructure | | (559,906) | - |
| Net cash (used in) generated from investing activities | | (678,796) | 589,065 |
| Cash Flows From Financing Activities | | | |
| Increase in financial liabilities designated as at fair value through profit or loss on initial recognition | | - | 1,950,300 |
| Increase in investment in bills and bonds under repurchase agreements | | 202,811 | - |
| Cash dividend paid - preferred shares | | (303,342) | - |
| Issuance of preferred shares | | - | 8,000,000 |
| Net cash (used in) generated from financing activities | | (100,531) | 9,950,300 |
| Impact to cash and cash equivalents from changes in exchange rates | | (57,392) | 90,273 |
| Net increase in cash and cash equivalents | | 28,433,604 | 11,649,853 |
| Cash and cash equivalents at beginning of period | | 26,868,092 | 15,218,239 |
| Cash and cash equivalents at end of period | | \$ 55,301,696 | \$ 26,868,092 |
| Cash and cash equivalents: | 6(1) | | |
| Cash and cash equivalents in the balance sheet | | \$ 7,534,342 | \$ 11,007,792 |
| Due from Central Bank and call loans to other banks satisfying the definition of IAS No. 7 "Cash Flow Statements" | | 47,484,484 | 15,860,300 |
| Investment in bills and bonds under reverse repurchase agreements satisfying the definition of IAS No. 7 "Cash Flow Statements" | | 282,870 | - |
| Cash and cash equivalents at end of period | | \$ 55,301,696 | \$ 26,868,092 |

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

DBS BANK (TAIWAN) LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS,
EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANIZATION

DBS Bank (Taiwan) Ltd (the “Company”) obtained the approval from the regulator to set up preparatory office on February 25, 2011 and was incorporated under the Company Act of the Republic of China on September 9, 2011.

According to the approvals of Jinsoxan No. 10001276390 issued by the Ministry of Economic Affairs on January 1, 2012 and of Jinguanyinwai No. 10050003500 issued by the Former Financial Supervisory Commission of Executive Yuan and in accordance with the Business Mergers and Acquisitions Act and The Financial Institutions Merger Act, the Company acquired specific assets and liabilities items from DBS Bank Ltd, Taipei Branch on January 1, 2012. On December 24, 2016, the Company acquired DBS Insurance Agency (Taiwan) Ltd (the “dissolving company”) and assumes all, if any, assets, liabilities, rights, and obligations of the dissolving company as of the combination date. As of December 31, 2016, the Company’s operations is composed of 38 branches, 1 offshore banking unit, and 1 headquarter. The total number of employees was 1,629 and 1,685 as of December 31, 2016 and 2015, respectively.

The Company’s core business includes accepting deposits, granting loans, investing in securities, conducting foreign exchange transactions, providing guarantee services, issuing letters of credit, issuing credit cards and conducting trust and agency services, wealth management, and life insurance agency services.

The Company was incorporated as company limited by shares under the provisions of the Company Act of the Republic of China (R.O.C.).

DBS Bank Ltd holds 100% common shares of the Company. The ultimate parent company of the Company is DBS Group Holdings Ltd.

2. THE DATE OF AUTHORISATION FOR ISSUANCE OF THE FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORISATION

These financial statements were authorised for issuance by the Board of Directors on March 21, 2017.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

None.

- (2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Company

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

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|--|
| Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28) | January 1, 2016 |
| Accounting for acquisition of interests in joint operations (amendments to IFRS 11) | January 1, 2016 |
| IFRS 14, 'Regulatory deferral accounts' | January 1, 2016 |
| Disclosure initiative (amendments to IAS 1) | January 1, 2016 |
| Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38) | January 1, 2016 |
| Agriculture: bearer plants (amendments to IAS 16 and IAS 41) | January 1, 2016 |
| Defined benefit plans: employee contributions (amendments to IAS 19R) | July 1, 2014 |
| Equity method in separate financial statements (amendments to IAS 27) | January 1, 2016 |
| Recoverable amount disclosures for non-financial assets (amendments to IAS 36) | January 1, 2014 |
| Novation of derivatives and continuation of hedge accounting (amendments to IAS 39) | January 1, 2014 |
| IFRIC 21, 'Levies' | January 1, 2014 |
| Improvements to IFRSs 2010-2012 | July 1, 2014 |
| Improvements to IFRSs 2011-2013 | July 1, 2014 |
| Improvements to IFRSs 2012-2014 | January 1, 2016 |
| The above standards and interpretations have no significant impact to the Company's financial condition and operating result based on the Company's assessment. | |

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

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

| New Standards, Interpretations and Amendments | Effective date by International Accounting Standards Board |
|---|--|
| Classification and measurement of share-based payment transactions (amendments to IFRS 2) | January 1, 2018 |
| Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts' (amendments to IFRS 4) | January 1, 2018 |

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

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

A. IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial asset at fair value through profit or loss, financial asset measured at fair value through other comprehensive income or financial asset measured at amortised cost. Equity instruments would be classified as financial asset at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss'

approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognise 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

- (c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

B. IFRS 16, 'Leases'

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies adopted in the financial reports are summarized as below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The financial statements of the Company 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 the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis of financial statement preparation

- A. Except for the following significant items, these financial statements have been prepared under the historical cost convention:
- (A) Financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.
 - (B) Available-for-sale financial assets measured at fair value.
 - (C) Defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation.
- B. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the

process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

- C. The Company uses classification based on nature to analyze expenses.

(3) Foreign currency transactions

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

Foreign currency transactions and balances

- A. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in profit or loss in the period in which they arise.
- B. Monetary assets and liabilities denominated in foreign currencies are re-translated at the spot exchange rates prevailing at the balance sheet date. Exchange differences arising upon re-translation at the balance sheet date are recognised in profit or loss.
- C. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through profit or loss are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in profit or loss. Non-monetary assets and liabilities denominated in foreign currencies held at fair value through other comprehensive income are re-translated at the exchange rates prevailing at the balance sheet date; their translation differences are recognised in other comprehensive income. However, non-monetary assets and liabilities denominated in foreign currencies that are not measured at fair value are translated using the historical exchange rates at the dates of the initial transactions.

(4) Cash and cash equivalents

In the balance sheet, cash and cash equivalents includes cash on hand, deposits held at call with banks and short-term highly liquid investments which are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. In the statement of cash flows, cash and cash equivalents refer to cash and cash equivalents in balance sheets, due from Central Bank and call loan to other banks and investments in bills and bonds under reverse repurchase agreements which meet the definition of cash and cash equivalents of IAS 7 adopted by the FSC.

(5) Bills and bonds under reverse repurchase agreements and repurchase agreements

Financial instruments sold (purchased) under repurchase (reverse repurchase) agreements are stated at acquisition cost. The difference between the contracted sale or repurchase price and acquisition cost is recognised as interest expense or interest income during the holding periods.

(6) Financial assets and financial liabilities

All financial assets and liabilities of the Company including derivatives are recognised in the balance sheet and are properly classified in accordance with IFRSs.

- A. Financial assets

(A) Regular way purchase or sale

Financial assets held by the Company are all accounted for using trade date accounting.

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

- a. Financial assets at fair value through profit or loss are financial assets held for trading. Financial assets are classified in this category of held for trading if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as financial assets held for trading.
- b. Financial assets at fair value through profit or loss are initially recognised at fair value. Transaction costs are recognised in profit and loss. Subsequent measurements are at fair value are recognised in profit and loss.

(C) Loans and receivables

- a. Loans and receivables include those that are originally generated and those that are not. The former originated directly from money, product or service that the Company provides to the debtors, while the latter refers to all the other loans and receivables.
- b. Loans and receivables are measured at initial fair value as the transaction price, and are recognised on the basis of fair value plus significant transaction cost, expense, significant service fee charged, discount or premium factor. Subsequently, the loans and receivables shall be measured using effective interest rate method. They are allowed to be measured at original amount if the effect of discounting is insignificant, in accordance with "Regulations Governing the Preparation of Financial Reports by Public Banks."

(D) Available-for-sale financial assets

- a. Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.
- b. Available-for-sale financial assets are initially recognised at fair value plus the acquisition cost, and measured at fair value with changes in fair value recognised in other comprehensive income.

(E) Other financial assets— financial assets carried at cost

Equity instruments traded in a non-active market are initially recognised at fair value plus acquisition cost. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variability in the range of reasonable fair value estimate is not significant for that equity instrument; or (b) probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If the variability in the range of reasonable fair value estimate could vary significantly, and the probabilities of the various estimates cannot be reasonably measured, then it should be assessed by cost.

B. Financial liabilities

Financial liabilities held by the Company include financial liabilities at fair value through profit or loss and financial liabilities carried at amortised cost.

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

- a. Financial liabilities at fair value through profit or loss are financial liabilities held for trading. Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing or resale in a short period of time. Derivatives are also categorized as financial liabilities held for trading. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:
- Hybrid (combined) contracts; or
 - They eliminate or significantly reduce a measurement or recognition inconsistency; or
 - They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.
- b. Financial liabilities at fair value through profit or loss at initial recognition are measured at fair value, and any change in fair value is recognised in profit and loss. Except for the circumstances to avoid inappropriate accounting appropriation, fair value movements arising from credit risk for financial liabilities designated as at fair value through profit or loss should be recognised in other comprehensive income.

(B) Financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost include liabilities not classified as financial liabilities at fair value through profit or loss and financial guarantee contracts.

C. Derecognition of financial assets

The Company derecognises a financial asset when one of the following conditions is met:

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

D. Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation of the contracts are fulfilled, cancelled or expired.

(7) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(8) Impairment of financial assets

- A. The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired as a result of one or more events that

occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- B. The criteria that the Company uses to determine whether there is objective evidence of an impairment loss is as follows:
- (A) Significant financial difficulty of the issuer or obligor;
 - (B) A breach of contract, such as a default or delinquency in interest or principal payments;
 - (C) The Company, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider; or
 - (D) High probability of bankruptcy or other financial reorganization of the borrower.
- C. When the Company assesses that there has been objective evidence of impairment and an impairment loss has occurred, accounting for impairment is made as follows according to the category of financial assets:

(A) Loans and receivables

If there is any objective evidence that the financial asset is impaired, the impairment amount is the difference between the financial assets' book value and the estimated future cash flow (exclusive of future credit loss) discounted using the original effective interest rate. The asset's book value is decreased by adjusting the account of allowance for bad debt, and loss amount is recognised under "bad debts expense and reserve for guarantee liabilities" depending on the nature of financial asset. If a financial asset uses floating rate, then the discounting rate used to assess impairment loss shall adopt the current effective interest rate as decided by the contract.

In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognised (for example, the upgraded credit rating of the debtor), the previously recognised impairment loss is reversed through the allowance for credit losses to the extent that the carrying amounts do not exceed the amortised cost that would have been determined had no impairment loss been recognised in prior years. The reversal is recognised as current profit and loss.

In addition, various types of loans and receivables are assessed based on their aging and possibilities of recovery in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" and IAS 39. In addition, pursuant to Jinguanyinkuo No. 10410001840 of FSC, the domestic banks are required to provide at least 1.5% provision for normal credit assets (including short-term trade financing) as well as the financial guarantee in relation to China exposure; pursuant to Jinguanyinkuo No. 10300329440 of FSC, the domestic banks are required to provide at least 1.5% provision for real estate that have been classified as normal assets by the end of 2016. Bad debts expense is adjusted for recoveries of non-performing loans which are already written off.

(B) Available-for-sale financial assets

Impairment loss, which is the difference between the cost (less any amortisation and principal paid) and its fair value less the impairment loss which previously had been recognised in profit and loss shall be reclassified from other comprehensive income to

profit and loss. When the fair value of a debt instrument subsequently increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed to the extent of the loss recognised in profit or loss. Recognition and reversal of impairment losses are made through allowances to adjust the book values of the assets.

(C) Financial assets carried at cost

Impairment loss is recognised in current profit and loss based on the difference between the book value and the discounted amount based on the current market return rate of similar financial assets, and shall not be reversed subsequently. Book value of the assets is adjusted through allowances.

(9) Derivative financial instruments

Derivative instruments are initially recognised at fair value at the contract date and subsequently measured by fair value. The fair value includes the public quotation in an active market or the latest trade price, and evaluation techniques such as cash flow discounting model or option pricing model. All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

(10) Property and equipment

- A. The property and equipment of the Company are initially recognised at cost.
- B. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.
- C. Cost model is applied for the subsequent measurement of property and equipment. Land is not depreciated. Other property and equipment are depreciated using the straight-line method to allocate their cost over their estimated useful lives. Each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. The estimated useful lives of property and equipment are as follows:

| | |
|--|------------|
| Buildings | 50 years |
| Accessories to buildings (Listed under buildings) | 1~5 years |
| Machinery and computer equipment | 3~5 years |
| Other equipment | 4~20 years |
| Leasehold improvements | 1~5 years |

- D. On each balance sheet date, the Company reviews and appropriately adjusts the residual value and useful life of the assets.
- E. Any gain or loss on disposal is calculated by the difference between the carrying amounts and proceeds on disposal, which is recognised under "other non-interest income" in the statement of comprehensive income. For those properties disposed and leased back by the Company without specific leasing period, gains on disposal of assets should be deferred and amortised over 10 years in conformity with the Jinguanyinfa No.12000702070 issued

by the FSC. Otherwise, it should be deferred and amortised over the remaining leasing period. The deferred revenue is recognised under “other liabilities”.

(11) Lease

Payments that the Company receives or charges under operating leases are recognised as gain and loss on a straight-line basis during the contract term, which are recognised under “other general and administrative expenses” and “other non-interest income”, respectively.

(12) Investment property

Investment property is initially recognised at its cost and is subsequently measured using the cost model. Depreciated cost is used to calculate depreciation expense after initial measurement. The depreciation method, remaining useful life and residual value should apply the same rules as applicable for property and equipment.

(13) Intangible assets

Intangible assets, consisting of computer software expenditures, are stated at cost and amortised on a straight-line basis over their estimated useful lives of 3-5 years.

(14) Foreclosed properties

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

(15) Impairment of non-financial assets

The Company assesses the recoverable amount of assets with indications of impairment. An impairment loss is recognised when recoverable amount is lower than its book value. The recoverable amount is the higher of its value of use and its fair value less cost of disposal. Impairment loss is reversed when previous events of impairment do not exist or are reduced, to the extent of the book value less depreciation or amortisation before impairment loss.

(16) Provisions and contingent liability

A. Provisions are recognised when present obligation (legal or constructive) has arisen as a result of past event, the outflow of economic benefits is highly probable upon settlement and the amount is reliably measurable. Provisions are measured at best estimate of settlement of the obligation. The discount rate reflects the current market assessments on the time value of money and the risk specific to the liabilities before tax. Provisions are not recognised for future operating loss.

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

(17) Financial guarantee contracts

A. The Company initially recognises financial guarantee contracts at fair value on the date of issuance. The Company charges a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract

is signed. Service fee received in advance is recognised in deferred accounts and amortised through straight-line method during the contract term.

- B. Subsequently, the Company should measure the financial guarantee contract issued at the higher of:
 - (A) The amount determined in accordance with IAS 37; and
 - (B) The amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with IAS 18, "Revenue".
- C. The increase in liabilities due to financial guarantee contract is recognised in "bad debts expense and reserve on guarantee liabilities".
- D. Assessment for above guarantee reserve is assessed and set aside according to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans".

(18) Employee benefits

A. Short-term employee benefits

Short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid and should be recognised as expenses when the service is rendered.

B. Pensions

(A) Defined contribution plans

The contributions are recognised as pension expenses in the period as incurred. Prepaid contributions are recognised as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined benefit plans

- a. Net obligation is recognised at the net amount of actuarial present value of defined benefit obligation less the fair value of fund, which is adjusted with the net unrecognised gain and loss on pension and recognises the pension assets or liabilities. Defined benefit obligation is assessed annually using projected unit credit method by the actuary. The actuarial present value of the defined benefit obligation is determined using the market yield of government bonds of which the currency and maturity are the same with the defined benefit obligation to discount the future cash flow.
- b. Remeasurements arising on defined benefit plans are recognised in other comprehensive income in the period in which they arise and are recorded as retained earnings.

C. Employees', directors' and supervisors' compensation

Employees', directors' and supervisors' compensation are recognised as expenses and liabilities, provided that such recognition is required under legal or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees', directors' and supervisors' compensation are different from the actual distributed amounts as resolved by the shareholders at their shareholders' meeting subsequently, the differences should be recognised based on the accounting for changes in

estimates.

(19) Share-based payment – employee compensation plan

Employee benefits include share-based compensation, namely, the DBSH Share Plan and the DBSH Employee Share Plan (the “Plans”).

Equity instruments granted and ultimately vested under the Plans are recognised in the statement of comprehensive income based on the fair value of the equity instruments at date of grant. The expense is accounted for as employee benefit expense and payable from employee compensation plan over the vesting period.

(20) Income tax

- A. The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or items recognised directly in equity, in which cases the tax is recognised in other comprehensive income or equity.
- B. The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional 10% tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the shareholders resolve to retain the earnings.
- C. Deferred income tax is recognised, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
- D. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. At each balance sheet date, unrecognised and recognised deferred income tax assets are reassessed.
- E. Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realise the asset and settle the liability simultaneously.

(21) Interest income and expense

Other than those classified as financial assets and liabilities at fair value through profit or loss, all the interest income and interest expense generated from interest-bearing financial

instruments are calculated by effective interest rate according to relevant regulations and recognised as “interest income” and “interest expense” in the statement of comprehensive income.

(22) Fee and commission income

Fee and commission income and expense are recognised after underwriting or providing services. Service fee earned through performing significant items is recognised after completing the significant items, such as service fee for the lead bank of a syndicated loan. Fee and commission income and expense in relation to subsequent underwriting services are amortised through service period or included in the calculation of effective interest rate of loans and receivables based on materiality. As for whether loans and receivables should be discounted using effective interest rate, according to the “Regulations Governing the Preparation of Financial Reports by Public Banks”, loans and receivables can be valued at original amount if the effect of discounting is immaterial.

(23) Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-Maker. The Chief Operating Decision-Maker is responsible for allocating resources and assessing performance of the operating segments.

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

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

The following is a brief description of the Company’s critical accounting estimates that involve management’s judgement.

(1) Impairment losses of loans

The Company establishes, through charges against profit, allowance for credit losses in respect of estimated loss in loans and receivables. The allowances consist of individual impairment allowances and collective impairment allowances. For individual impairment allowances, judgment is required in determining whether there are indications that an impairment loss may already have been incurred, such as economic environment, the repayment ability of the borrower in the future and the collateral value, and then estimating the amount and timing of the expected cash flows, which form the basis of the impairment loss that is recorded. In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics to estimate the impairment loss rates and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Please refer to Note 12(3)B for the credit risk management policies.

(2) Fair value of financial instruments

The majority of the Company’s financial instruments reported at fair value are based on quoted

and observable market prices or on internally developed models that are based on independently sourced market parameters. The fair value of financial instruments without an observable market price in a liquid market may be determined using valuation models. The choice of model requires significant judgement for complex products. Policies and procedures have been established to facilitate the exercise of judgement in determining the risk characteristics of various financial instruments, discount rates and other factors used in the valuation process.

Please refer to Note 12(1)(2) for details on the fair value information and the fair value hierarchy of the Company's financial instruments measured at fair value.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--------------------------|--------------------------|--------------------------|
| Cash on hand | \$ 1,677,265 | \$ 1,117,003 |
| Foreign currency on hand | 280,449 | 294,641 |
| Checks for clearance | 255,660 | 113,712 |
| Due from banks | <u>5,320,968</u> | <u>9,482,436</u> |
| Total | <u>\$ 7,534,342</u> | <u>\$ 11,007,792</u> |

For the purpose of preparing the statements of cash flows, cash and cash equivalents are combined with part of the amount of each account.

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Cash and cash equivalents on the balance sheet | \$ 7,534,342 | \$ 11,007,792 |
| Due from Central Bank and call loans to other banks | 47,484,484 | 15,860,300 |
| Investment in bills and bonds under reverse repurchase agreements | <u>282,870</u> | <u>-</u> |
| Cash and cash equivalents on the statement of cash flows | <u>\$ 55,301,696</u> | <u>\$ 26,868,092</u> |

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

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Reserve for deposits – account A | \$ 2,601,676 | \$ 1,715,160 |
| Reserve for deposits – account B | 5,294,147 | 5,019,359 |
| Reserve for deposits – foreign currency account | 119,205 | 180,617 |
| Reserve for deposits – Financial Information Service Center | 156,762 | 166,888 |
| Call loans to banks | <u>44,606,841</u> | <u>13,797,635</u> |
| Total | <u>\$ 52,778,631</u> | <u>\$ 20,879,659</u> |

The reserve deposited with the Central Bank of the Republic of China is maintained in accordance with statutory reserve rates. The reserves for deposits of account B are not allowed to be withdrawn, except for monthly adjustments.

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

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| <u>Financial assets for trading purposes</u> | | |
| Government bonds | \$ 8,416,509 | \$ 17,722,620 |
| Corporate bonds | 1,291,960 | 2,013,080 |
| <u>Derivative financial instruments</u> | | |
| Forward exchange contracts | 3,108,976 | 1,415,150 |
| Non-delivery FX forwards | 51,007 | 153,175 |
| Interest rate swap contracts | 1,523,689 | 907,280 |
| Cross currency swap contracts | 147,489 | 546,994 |
| Interest rate futures | 510 | 634 |
| Forward exchange options | 3,469,571 | 7,233,939 |
| Commodity swap | - | 35,459 |
| Equity swap | 1,830 | 1,419 |
| Total | <u>\$ 18,011,541</u> | <u>\$ 30,029,750</u> |

The credit valuation adjustment as of December 31, 2016 and 2015 amounted to \$86,683 and \$301,125, respectively.

Please refer to Note 6 (27) for the net profit on the financial assets at fair value through profit or loss of the Company for the years ended December 31, 2016 and 2015.

A portion of the above-mentioned held-for-trading financial assets have been sold under repo agreements. Please refer to Note 12(4).

(4) Investment in bills and bonds under reverse repurchase agreements and investment in bills and bonds under repurchase agreements

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| <u>Investment in bills and bonds under reverse repurchase agreements - Government bonds</u> | | |
| The par value | \$ 282,870 | \$ - |
| The annual interest rates (%) | 0.34~0.40 | - |
| The resale amounts | \$ 282,880 | \$ - |
| <u>Investment in bills and bonds under repurchase agreements - Government bonds</u> | | |
| The par value | \$ 202,811 | \$ - |
| The annual interest rates (%) | 0.32 | - |
| The repurchase amounts | \$ 202,824 | \$ - |

(5) Receivables – net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Factoring receivable | \$ 17,226,139 | \$ 12,183,058 |
| Interest receivable | 899,486 | 1,157,915 |
| Acceptances receivable | 661,637 | 374,440 |
| Receivable from settlement of bond transactions | 854,969 | 149,712 |
| Receivables on settlement default of derivatives | 479,666 | 88,328 |
| Credit card receivable | 64,505 | 69,046 |
| Fee and commission receivable | 63,132 | 54,331 |
| Other receivables | <u>113,640</u> | <u>95,262</u> |
| Total | 20,363,174 | 14,172,092 |
| Less: Allowance for credit losses | (421,545) | (208,329) |
| Net | <u>\$ 19,941,629</u> | <u>\$ 13,963,763</u> |

(6) Bills discounted and loans – net

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------------|--------------------------|--------------------------|
| Short-term loans and overdrafts | \$ 74,064,023 | \$ 76,848,552 |
| Medium-term loans | 63,970,522 | 55,456,183 |
| Long-term loans | 59,913,230 | 58,766,314 |
| Export-import bills negotiated | 1,540,135 | 11,289,853 |
| Accounts receivable financing | 7,355 | 116,332 |
| Overdue loans | <u>1,408,982</u> | <u>1,274,512</u> |
| Total | 200,904,247 | 203,751,746 |
| Less: Allowance for credit losses | (3,120,789) | (3,115,293) |
| Net | <u>\$ 197,783,458</u> | <u>\$ 200,636,453</u> |

The Company had assessed the appropriateness of allowance for credit losses for bills discounted and loans and receivables. The table below shows the movements in allowances for credit losses for the years ended December 31, 2016 and 2015.

Allowances for credit losses – bills discounted and loans

| | <u>For the year ended December 31,</u> | |
|--|--|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Beginning balance | \$ 3,115,293 | \$ 2,707,809 |
| Charge to comprehensive income statement | 678,805 | 1,063,396 |
| Net write-off during the year | (663,847) | (698,138) |
| Exchange and other movements | <u>(9,462)</u> | <u>42,226</u> |
| Ending balance | <u>\$ 3,120,789</u> | <u>\$ 3,115,293</u> |

Bills discounted and loans included in the total amounts of impairment assessment to determine the allowance for credit losses are as follows:

| | | December 31, 2016 | |
|---|-----------------------|-------------------------------|--------------------------------|
| Item | | Bills discounted and loans | Allowance for credit losses |
| With individual objective evidence of impairment | Individual assessment | \$ 2,083,983 | \$ 762,524 |
| | Collective assessment | 1,970,234 | 586,297 |
| Without individual objective evidence of impairment | | | |
| | Collective assessment | 196,850,030 | 1,771,968 |
| | | <u>\$ 200,904,247</u> | <u>\$ 3,120,789</u> |

| | | December 31, 2015 | |
|---|-----------------------|-------------------------------|--------------------------------|
| Item | | Bills discounted and loans | Allowance for credit losses |
| With individual objective evidence of impairment | Individual assessment | \$ 2,378,704 | \$ 1,006,547 |
| | Collective assessment | 1,532,435 | 415,138 |
| Without individual objective evidence of impairment | | | |
| | Collective assessment | 199,840,607 | 1,693,608 |
| | | <u>\$ 203,751,746</u> | <u>\$ 3,115,293</u> |

Allowances for credit losses – receivables and other financial assets

| | For the year ended December 31, | |
|---|---------------------------------|-------------------|
| | 2016 | 2015 |
| Beginning balance | \$ 208,864 | \$ 103,830 |
| Transfer during the year | 233,166 | - |
| Charge to comprehensive income statement | 477,114 | 159,687 |
| Net write-off during the year | (482,133) | (45,508) |
| Exchange and other movements | (14,885) | (9,145) |
| Ending balance | <u>\$ 422,126</u> | <u>\$ 208,864</u> |

The amounts shown under “Transfer during the period” are the credit valuation adjustment of financial assets at fair value through profit or loss transferred to the allowance for credit loss of receivables on settlement default of derivatives during the above-mentioned period.

Receivables included in the total amounts of impairment assessment to determine the allowance for credit losses are as follows:

| | | December 31, 2016 | |
|---|-----------------------|----------------------|--------------------------------|
| Item | | Receivables | Allowance for credit losses |
| With individual objective evidence of impairment | Individual assessment | \$ 484,559 | \$ 313,028 |
| | Collective assessment | 19,924 | 19,924 |
| Without individual objective evidence of impairment | | | |
| | Collective assessment | 18,838,755 | 88,593 |
| | | <u>\$ 19,343,238</u> | <u>\$ 421,545</u> |

| | | December 31, 2015 | |
|---|-----------------------|----------------------|-----------------------------|
| Item | | Receivables | Allowance for credit losses |
| With individual objective evidence of impairment | Individual assessment | \$ 99,251 | \$ 97,963 |
| | Collective assessment | 15,450 | 15,450 |
| Without individual objective evidence of impairment | Collective assessment | 13,766,245 | 94,916 |
| | | <u>\$ 13,880,946</u> | <u>\$ 208,329</u> |

For the year ended December 31, 2016, the amount of charge to comprehensive income statement and net write-off during the period incurred by receivables on settlement default of derivatives was \$451,970 and \$459,873, respectively. (For the year ended December 31, 2015: \$110,536 and \$23,587, respectively.)

Interest income on loans and receivables is not accrued when the principal and interest is overdue by 180 days. Please refer to Note 12(3) B for impairment assessment of bills discounted and loans and receivables, as of December 31, 2016 and 2015.

(7) Available-for-sale financial assets

| | December 31, 2016 | December 31, 2015 |
|---|----------------------|----------------------|
| Certificates of deposit | \$ 45,780,000 | \$ 63,835,000 |
| Corporate bonds | 64,435 | 65,679 |
| Government bonds | 12,522,017 | 18,306,673 |
| Valuation adjustment for available-for-sale financial assets | (2,502) | 92,472 |
| Less: accumulated impairment— available-for-sale financial assets | (64,435) | (65,679) |
| Net | <u>\$ 58,299,515</u> | <u>\$ 82,234,145</u> |

Please refer to Note 8 for the Company's available-for-sale financial assets pledged as collateral, as of December 31, 2016 and 2015.

Please refer to Note 6 (23) for the realised net profit or valuation adjustment on the available-for-sale financial assets of the Company for the years ended December 31, 2016 and 2015.

(8) Other financial assets – net

| | December 31, 2016 | December 31, 2015 |
|--|-------------------|-------------------|
| Clean bills purchased | \$ 144,817 | \$ 129,024 |
| Financial assets carried at cost – unlisted stocks | 49,881 | 49,881 |
| Subtotal | 194,698 | 178,905 |
| Less: allowance for credit losses | (581) | (535) |
| Net | <u>\$ 194,117</u> | <u>\$ 178,370</u> |

As there is no quoted market price in an active market for the unlisted stocks, and their fair value cannot be measured reliably, the unlisted stocks are stated at cost.

(9) Property and equipment — net

The following are the movements of property and equipment

| | Land | Buildings | Machinery and computer equipment | Other equipment | Leasehold improvements | Total |
|---|-------------------|-------------------|----------------------------------|------------------|------------------------|---------------------|
| At January 1, 2016 | | | | | | |
| Cost | \$ 739,824 | \$ 609,008 | \$ 458,960 | \$ 152,349 | \$ 619,091 | \$ 2,579,232 |
| Accumulated depreciation and impairment | (230,418) | (478,075) | (283,846) | (128,748) | (436,830) | (1,557,917) |
| | <u>\$ 509,406</u> | <u>\$ 130,933</u> | <u>\$ 175,114</u> | <u>\$ 23,601</u> | <u>\$ 182,261</u> | <u>\$ 1,021,315</u> |
| For the year ended December 31, 2016 | | | | | | |
| At January 1, 2016 | \$ 509,406 | \$ 130,933 | \$ 175,114 | \$ 23,601 | \$ 182,261 | \$ 1,021,315 |
| Additions (Note 1) | - | 1,068 | 33,007 | 7,936 | 22,646 | 64,657 |
| Disposals | - | (181) | (59) | (145) | (1,988) | (2,373) |
| Depreciation | - | (8,072) | (59,736) | (10,112) | (67,575) | (145,495) |
| Exchange difference | - | 3 | 6 | (3) | (5) | 1 |
| At December 31, 2016 | <u>\$ 509,406</u> | <u>\$ 123,751</u> | <u>\$ 148,332</u> | <u>\$ 21,277</u> | <u>\$ 135,339</u> | <u>\$ 938,105</u> |

| | | | | | | |
|---|-------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| At December 31, 2016 | | | | | | |
| Cost | \$ 739,824 | \$ 604,382 | \$ 486,686 | \$ 155,947 | \$ 620,508 | \$ 2,607,347 |
| Accumulated depreciation and impairment | (230,418) | (480,631) | (338,354) | (134,670) | (485,169) | (1,669,242) |
| | <u>\$ 509,406</u> | <u>\$ 123,751</u> | <u>\$ 148,332</u> | <u>\$ 21,277</u> | <u>\$ 135,339</u> | <u>\$ 938,105</u> |

Note 1: Including additional cost (excluding reversal in current period) amounting to \$1,832 of decommissioning assets.

| | Land | Buildings | Machinery and computer equipment | Other equipment | Leasehold improvements | Total |
|---|-------------------|-------------------|----------------------------------|------------------|------------------------|-------------------|
| At January 1, 2015 | | | | | | |
| Cost | \$ 739,824 | \$ 682,790 | \$ 339,287 | \$ 141,762 | \$ 557,801 | \$ 2,461,464 |
| Accumulated depreciation and impairment | (230,418) | (545,583) | (225,741) | (115,692) | (378,552) | (1,495,986) |
| | <u>\$ 509,406</u> | <u>\$ 137,207</u> | <u>\$ 113,546</u> | <u>\$ 26,070</u> | <u>\$ 179,249</u> | <u>\$ 965,478</u> |

For the year ended December 31, 2015

| | | | | | | |
|----------------------|-------------------|-------------------|-------------------|------------------|-------------------|---------------------|
| At January 1, 2015 | \$ 509,406 | \$ 137,207 | \$ 113,546 | \$ 26,070 | \$ 179,249 | \$ 965,478 |
| Additions (Note 1) | - | 5,961 | 123,193 | 15,169 | 96,941 | 241,264 |
| Disposals | - | (1,551) | (3) | (20) | (471) | (2,045) |
| Reclassifications | - | (2,364) | - | (3) | 2,367 | - |
| Depreciation | - | (8,342) | (61,737) | (17,649) | (95,950) | (183,678) |
| Exchange difference | - | 22 | 115 | 34 | 125 | 296 |
| At December 31, 2015 | <u>\$ 509,406</u> | <u>\$ 130,933</u> | <u>\$ 175,114</u> | <u>\$ 23,601</u> | <u>\$ 182,261</u> | <u>\$ 1,021,315</u> |

At December 31, 2015

| | | | | | | |
|---|-------------------|-------------------|-------------------|------------------|-------------------|---------------------|
| Cost | \$ 739,824 | \$ 609,008 | \$ 458,960 | \$ 152,349 | \$ 619,091 | \$ 2,579,232 |
| Accumulated depreciation and impairment | (230,418) | (478,075) | (283,846) | (128,748) | (436,830) | (1,557,917) |
| | <u>\$ 509,406</u> | <u>\$ 130,933</u> | <u>\$ 175,114</u> | <u>\$ 23,601</u> | <u>\$ 182,261</u> | <u>\$ 1,021,315</u> |

Note 1: Including additional cost (excluding reversal in current period) amounting to \$2,512 of decommissioning assets.

As of December 31, 2016 and 2015, the above property and equipment were not pledged as collateral by the Company.

The self-owned branch (Chung-Hsiao branch) has been disposed with the approval from the Company's Board of Directors on August 26, 2014. (It was recognised under "Assets held for sale" as of December 31, 2014.) The transaction was completed in January 2015 with proceeds amounting to \$828,800 in accordance with the contract. Part of the properties disposed was leased back by the Company. In accordance with Jingyanyinfa No. 10200070270 issued by the FSC, the Company has recognised \$21,135 and \$180,571 under "gains on disposal of assets" for the years ended December 31, 2016 and 2015, respectively. The Company has recognised \$169,076 and \$190,211 under "deferred revenue" for the years ended December 31, 2016 and 2015, respectively.

(10) Investment properties – net

The following are the movements of investment properties:

| | <u>Land</u> | <u>Buildings</u> | <u>Total</u> |
|---|-------------------|-------------------|-------------------|
| At January 1, 2016 | | | |
| Cost | \$ 98,000 | \$ 159,590 | \$ 257,590 |
| Accumulated depreciation and impairment | <u>-</u> | <u>(113,442)</u> | <u>(113,442)</u> |
| | <u>\$ 98,000</u> | <u>\$ 46,148</u> | <u>\$ 144,148</u> |
| For the year ended December 31, 2016 | | | |
| At January 1 | \$ 98,000 | \$ 46,148 | 144,148 |
| Depreciation | <u>-</u> | <u>(1,440)</u> | <u>(1,440)</u> |
| At December 31, 2016 | <u>\$ 98,000</u> | <u>\$ 44,708</u> | <u>\$ 142,708</u> |
| At December 31, 2016 | | | |
| Cost | \$ 98,000 | \$ 159,590 | \$ 257,590 |
| Accumulated depreciation and impairment | <u>-</u> | <u>(114,882)</u> | <u>(114,882)</u> |
| | <u>\$ 98,000</u> | <u>\$ 44,708</u> | <u>\$ 142,708</u> |
| | <u>Land</u> | <u>Buildings</u> | <u>Total</u> |
| At January 1, 2015 | | | |
| Cost | \$ 202,427 | \$ 219,690 | \$ 422,117 |
| Accumulated depreciation and impairment | <u>(31,328)</u> | <u>(146,556)</u> | <u>(177,884)</u> |
| | <u>\$ 171,099</u> | <u>\$ 73,134</u> | <u>\$ 244,233</u> |
| For the year ended December 31, 2015 | | | |
| At January 1 | \$ 171,099 | \$ 73,134 | \$ 244,233 |
| Disposals | <u>(73,099)</u> | <u>(24,987)</u> | <u>(98,086)</u> |
| Depreciation | <u>-</u> | <u>(2,007)</u> | <u>(2,007)</u> |
| Exchange difference | <u>-</u> | <u>8</u> | <u>8</u> |
| At December 31, 2015 | <u>\$ 98,000</u> | <u>\$ 46,148</u> | <u>\$ 144,148</u> |
| At December 31, 2015 | | | |
| Cost | \$ 98,000 | \$ 159,590 | \$ 257,590 |
| Accumulated depreciation and impairment | <u>-</u> | <u>(113,442)</u> | <u>(113,442)</u> |
| | <u>\$ 98,000</u> | <u>\$ 46,148</u> | <u>\$ 144,148</u> |

A. The fair value of the investment properties held by the Company as of December 31, 2016 and 2015 were \$150,788 and \$153,706, respectively, which were assessed by the Company referring to recent transaction prices in the market and classified as level 2 of the fair value hierarchy.

B. Rental income from the lease of the investment properties were \$0 and \$1,963, respectively, for the years ended December 31, 2016 and 2015. Direct operating expense for the years ended December 31, 2016 and 2015 were \$467 and \$1,175, respectively.

(11) Intangible assets – net

| | Computer software | |
|--------------------------|-------------------|-------------------|
| | 2016 | 2015 |
| At January 1 | | |
| Cost | \$ 382,204 | \$ 293,089 |
| Accumulated amortisation | (228,534) | (175,463) |
| | <u>\$ 153,670</u> | <u>\$ 117,626</u> |
| At January 1 | \$ 153,670 | \$ 117,626 |
| Additions | 56,479 | 89,441 |
| Retirement | (7) | - |
| Amortisation | (55,919) | (53,477) |
| Exchange difference | - | 80 |
| At December 31 | <u>\$ 154,223</u> | <u>\$ 153,670</u> |
| At December 31 | | |
| Cost | \$ 432,016 | \$ 382,204 |
| Accumulated amortisation | (277,793) | (228,534) |
| | <u>\$ 154,223</u> | <u>\$ 153,670</u> |

(12) Other assets – net

| | December 31, 2016 | December 31, 2015 |
|-----------------------|---------------------|---------------------|
| Prepaid expenses | \$ 146,816 | \$ 94,590 |
| Refundable deposits | 2,346,932 | 7,140,926 |
| Foreclosed properties | 63,420 | - |
| Total | <u>\$ 2,557,168</u> | <u>\$ 7,235,516</u> |

Please refer to Note 7 (2) E for the Company's refundable deposits with related parties as of December 31, 2016 and 2015.

(13) Due to Central Bank and other banks

| | December 31, 2016 | December 31, 2015 |
|-----------------------|----------------------|----------------------|
| Call loans from banks | \$ 11,629,014 | \$ 46,234,930 |
| Overdrafts from banks | 106,506 | 7,242 |
| Due to other banks | 693,922 | 821,133 |
| Total | <u>\$ 12,429,442</u> | <u>\$ 47,063,305</u> |

Please refer to Note 6 (25) for the interest expense on due to Central Bank and other banks of the Company for the years ended December 31, 2016 and 2015.

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

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| <u>Financial liabilities for trading purposes</u> | | |
| Borrowed securities payables | \$ 284,344 | \$ 149,710 |
| Derivative financial instruments | | |
| Forward exchange contracts | 3,152,850 | 1,011,249 |
| Non-delivery FX forwards | 41,520 | 110,929 |
| Interest rate swap contracts | 1,535,373 | 1,017,911 |
| Cross currency swap contracts | 339,998 | 251,762 |
| Interest rate futures | 643 | 13,723 |
| Foreign exchange options | 3,556,335 | 7,535,110 |
| Commodity swap | - | 35,459 |
| Equity swap | 1,830 | 1,419 |
| Subtotal | <u>8,912,893</u> | <u>10,127,272</u> |
| <u>Financial liabilities designated as at fair value through profit or loss on initial recognition</u> | | |
| Financial bonds | 2,018,297 | 1,970,370 |
| Valuation adjustment of financial liabilities designated as at fair value through profit or loss on initial recognition | (153,578) | (114,915) |
| Subtotal | <u>1,864,719</u> | <u>1,855,455</u> |
| Total | <u>\$ 10,777,612</u> | <u>\$ 11,982,727</u> |

- A. The fixed-rate debt instruments issued by the Company use derivative financial instruments for economic hedge to achieve the Company's risk management policy. The debt instruments are initially measured at amortised cost; however, derivative financial instruments are measured at fair value and the accounting will be different. Thus, the financial liabilities are initially designated to be measured at fair value. Relevant information is as follows:

First series of unsecured financial bonds in 2015

| | |
|------------------------------|---|
| Par value | USD 60,000,000 |
| Stated interest rate | Fixed interest rate at 0% |
| Period | 30 years (Issue date: October 16, 2015) |
| Term of principal payment | Repaid on maturity |
| Issue price | Priced at face value on issue date |
| Redemption price on maturity | 364.97479463% |

- B. The change in the fair value of the financial liability designated as at fair value through profit or loss attributable to changes in its credit risk for the years ended December 31, 2016 and 2015 are \$41,919 and (\$9,035), respectively.
- C. Please refer to Note 6 (27) for the net profit on the financial liabilities at fair value through profit or loss of the Company for the years ended December 31, 2016 and 2015.

(15) Payables

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Payable from settlement of bond transactions | \$ 298,688 | \$ 5,314,620 |
| Factoring payable | 785,991 | 1,197,657 |
| Acceptances payable | 661,637 | 374,440 |
| Employees' salaries and bonus payable | 639,637 | 627,592 |
| Interest payable | 289,441 | 358,793 |
| Receipts under custody | 148,962 | 28,187 |
| Refundable stock proceeds | 111,493 | 111,517 |
| Service fees payable | 86,869 | 91,721 |
| Business tax and stamp duty payable | 62,365 | 66,348 |
| Collections payable for customers – checks for clearing | 255,660 | 113,712 |
| Other payables | 489,079 | 436,526 |
| Total | <u>\$ 3,829,822</u> | <u>\$ 8,721,113</u> |

(16) Deposits and remittances

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------------|--------------------------|--------------------------|
| Checking deposits | \$ 503,432 | \$ 655,504 |
| Demand deposits | 61,728,359 | 45,602,052 |
| Time deposits | 172,470,834 | 146,152,208 |
| Savings deposits | 61,531,508 | 67,099,987 |
| Negotiable certificates of deposit | - | 4,000,000 |
| Inward remittance | 34,169 | 30,052 |
| Total | <u>\$ 296,268,302</u> | <u>\$ 263,539,803</u> |

(17) Other financial liabilities

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------------------------------|--------------------------|--------------------------|
| Principal of structured deposits | <u>\$ 2,281,929</u> | <u>\$ 2,785,774</u> |

(18) Provisions

| | <u>Employee benefit liability reserve</u> | <u>Guarantee liability reserve</u> | <u>Decommissioning liability</u> | <u>Other Provisions</u> | <u>Total</u> |
|--------------------------------------|---|------------------------------------|----------------------------------|-------------------------|-------------------|
| For the year ended December 31, 2016 | | | | | |
| At January 1, 2016 | \$ 28,945 | \$ 180,930 | \$ 47,039 | \$ - | \$ 256,914 |
| Increase in provisions | - | - | 1,184 | 9,021 | 10,205 |
| Decrease in provisions | (3,987) | (34,702) | (1,147) | - | (39,836) |
| Exchange difference | - | (524) | - | - | (524) |
| At December 31, 2016 | <u>\$ 24,958</u> | <u>\$ 145,704</u> | <u>\$ 47,076</u> | <u>\$ 9,021</u> | <u>\$ 226,759</u> |

| | <u>Employee benefit liability reserve</u> | <u>Guarantee liability reserve</u> | <u>Decommissioning liability</u> | <u>Total</u> |
|--------------------------------------|---|------------------------------------|----------------------------------|-------------------|
| For the year ended December 31, 2015 | | | | |
| At January 1, 2015 | \$ 38,465 | \$ 199,714 | \$ 44,872 | \$ 283,051 |
| Increase in provisions | - | - | 2,512 | 2,512 |
| Decrease in provisions | (9,520) | (19,765) | (345) | (29,630) |
| Exchange difference | - | 981 | - | 981 |
| At December 31, 2015 | <u>\$ 28,945</u> | <u>\$ 180,930</u> | <u>\$ 47,039</u> | <u>\$ 256,914</u> |

(19) Pensions

A. Defined contribution plans

The Company has established a defined contribution plan pursuant to the Labor Pension Act, which covers employees with R.O.C. nationality and those who chose or are required to apply the Labor Pension Act. The contributions are made monthly based on not less than 6% of the employees' salaries and are deposited in the employees' individual pension fund accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees' individual pension fund accounts and the cumulative profit in such accounts. The employees can choose to receive such pension benefits monthly or in lump sum. Under the defined contribution plan, the Company recognised pension expense of \$102,458 and \$98,714 for the years ended December 31, 2016 and 2015, respectively.

B. Defined benefit plans

The Company has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Company contributes monthly an amount equal to 5% of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Company would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

(A) The amounts recognised in the balance sheet are determined as follows:

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | \$ 47,056 | \$ 53,429 |
| Fair value of plan assets | (22,098) | (24,484) |
| Net defined benefit liability | <u>\$ 24,958</u> | <u>\$ 28,945</u> |

(B) Change in present value of defined benefit obligations are as follows:

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|------------------|------------------|
| Balance at January 1 | \$ 53,429 | \$ 45,662 |
| Current service cost | 4,135 | 3,613 |
| Interest cost | 902 | 998 |
| Paid pension | (3,940) | - |
| Remeasurements: | | |
| - Change in financial assumptions | 1,985 | 2,864 |
| - Experience adjustments | (9,455) | 292 |
| Balance at December 31 | <u>\$ 47,056</u> | <u>\$ 53,429</u> |

(C) Change in fair value of plan assets are as follows:

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Balance at January 1 | \$ 24,484 | \$ 7,197 |
| Interest income | 437 | 170 |
| Paid pension | (3,940) | - |
| Remeasurements: Return on plan assets (excluding amounts included in interest income) | (309) | 89 |
| Employer contributions | 1,426 | 17,028 |
| Balance at December 31 | <u>\$ 22,098</u> | <u>\$ 24,484</u> |

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

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

| | <u>2016</u> | <u>2015</u> |
|-----------------------------|-------------|-------------|
| Discount rate | 1.30% | 1.70% |
| Future salary increase rate | 4.00% | 4.00% |

Assumptions regarding future mortality rate are set based on the 5th chart of life span estimate used by the Taiwan Life Insurance Enterprises.

(F) The present value of defined benefit obligations would be affected by the main actuarial assumptions. The analysis was as follows:

| | <u>Discount rate</u> | | <u>Future salary increase rate</u> | |
|---|-----------------------|-----------------------|------------------------------------|-----------------------|
| | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> | <u>Increase 0.25%</u> | <u>Decrease 0.25%</u> |
| December 31, 2016 | | | | |
| Effect on present value of defined benefit obligation | (\$ 1,254) | \$ 1,301 | \$ 1,264 | (\$ 1,225) |
| December 31, 2015 | | | | |
| Effect on present value of defined benefit obligation | (\$ 6,310) | \$ 9,276 | \$ 9,239 | (\$ 6,338) |

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

pension liability in the balance sheet are the same. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

- (G) Expected contribution to the defined benefit pension plans of the Company for the year ending December 31, 2017 amounts to \$2,377.
- (H) As of December 31, 2016, the weighted average duration of that retirement plan is 11 years.

(20) Other liabilities

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|-----------------------------|--------------------------|--------------------------|
| Advanced receipts | \$ 571,263 | \$ 608,143 |
| Deferred revenue | 169,076 | 190,211 |
| Guarantee deposits received | 20,168 | 20,203 |
| Others | 121,754 | 7,572 |
| Total | <u>\$ 882,261</u> | <u>\$ 826,129</u> |

Please refer to Note 6(9) for the information relating to deferred revenue.

(21) Share capital

- A. As of December 31, 2016, the authorised and paid-in capital were \$50 billion dollars and \$30 billion dollars consisting of 5,000,000 thousand and 3,000,000 thousand shares, respectively, with par value of \$10 dollars per share. Paid-in capital includes common shares and preferred shares amounting to \$22,000,000 and \$8,000,000, respectively.
- B. The Company issued 800 million shares of non-cumulative, perpetual preferred shares A via private placement amounting to \$8,000,000 to DBS Group Holdings Ltd (the ultimate parent company) with effective date on January 20, 2015. It was resolved by the Board in August 2014 and was approved by the FSC on November 12, 2014 in the letter Jinguanyinwai No. 10300282580 and Ministry of Economic Affairs on February 3, 2015 in the letter Jinsoxan No. 10401016840. The dividends are fixed at an annual rate of 4.0%. The distributable dividends are calculated based on the issue price, and are distributed annually by cash subject to the Company's Articles of Incorporation. The shareholders at the annual shareholders' meeting of the Company have the discretion to approve the distribution of the dividends on the Preferred Shares.

(22) Retained earnings

- A. According to the Company's Articles of Incorporation, after paying tax and off-setting accumulated losses, if there is a still a surplus in the annual account, the Company shall set aside 30% of the surplus as legal reserve, then set aside or reverse special reserve as required by law. The allocation of the distributable earnings, which are the sum of the remaining surplus plus the accumulated retained earnings, will be proposed by Board of Directors and resolved at the shareholders' meeting.
- B. In addition to legal reserve, the Company sets aside special reserve in accordance with the Company's Articles of Incorporation or applicable laws. In accordance with Jinguanzhengfa No. 1010012865, the Company shall set aside the same amount of special reserve from the debit balance on other equity at the balance sheet date from its current year's net income and unappropriated earnings. Unless the debit balance on other equity items is reserved subsequently, the reserved amount could not be included in the

distributable earnings. In accordance with the Jinguanyinfa No. 10510001510, in response to the development of Fintech and to protect the interests of the Company's employees, upon the distribution of earnings from 2016 through 2018, the Company shall set aside 0.5% to 1% of net income after tax as special reserve.

- C. In compliance with the Banking Act and Company Act, the Company, at the time of distributing its earnings for each fiscal year, shall set aside thirty percent (30%) of its after-tax earnings as a legal reserve. The legal reserve is to be used exclusively to offset any accumulated deficit or to increase capital by issuing new shares or to distribute cash to shareholders in proportion to their share ownership and is not to be used for any other purposes. For legal reserve used in issuing new shares or distributing cash dividends, the amount of the legal reserve shall not exceed 25% of paid-in capital. Unless and until the accumulated legal reserve equals the Company's paid-in capital, the maximum cash profits which may be distributed shall not exceed 15% of the Company's paid-in capital. In the event that the accumulated legal reserve equals or exceeds the Company's paid-in capital or the Company is sound in both its finance and business operations based on the competent authorities regulation and have set aside legal reserve in compliance with the Company Act, the restrictions stipulated in the preceding paragraph shall not apply.
- D. The earnings distribution for 2015 of the Company has been resolved by the shareholders' meeting on April 22, 2016, setting aside \$93,197 as legal reserve, distributing \$303,342 of cash dividends on preferred shares and not to distribute dividends on common shares. The earnings distribution for 2016 of the Company has been resolved by the Board on March 21, 2017, setting \$83,280 aside as legal reserve, setting \$1,388 aside as special reserve, distributing \$320,000 of cash dividends on preferred shares and not to distribute dividends on common shares. The appropriation of the Company's 2016 earnings is pending until the confirmation (declaration) from the Shareholders' meeting. More information regarding the earnings distribution is available at the website of the Market Observation Post System.
- E. For information relating to employees', directors' and supervisors' compensation, please refer to Note 6 (30).

(23) Other equity items

| | For the year ended December 31, 2016 | | | |
|---|---|---|--|------------|
| | Available-for-sale revaluation reserve | Foreign currency translation differences for foreign operations | Change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to changes in its credit risk | Total |
| At January 1, 2016 | \$ 92,472 | \$ 135,526 | (\$ 9,035) | \$ 218,963 |
| Available-for-sale financial assets | | | | |
| – Valuation adjustment in the period | (76,447) | - | - | (76,447) |
| – Realised gain and loss in the period | (18,527) | - | - | (18,527) |
| Changes in translation difference of foreign operating entities | - | (27,371) | - | (27,371) |
| Valuation adjustment relating to credit risk | - | - | 41,919 | 41,919 |
| At December 31, 2016 | (\$ 2,502) | \$ 108,155 | \$ 32,884 | \$ 138,537 |

| | For the year ended December 31, 2015 | | | |
|---|---|---|--|-------------------|
| | Available-for-sale revaluation reserve | Foreign currency translation differences for foreign operations | Change in the fair value of the financial liability designated as at fair value through profit or loss that is attributable to changes in its credit risk | Total |
| At January 1, 2015 | \$ 34,805 | \$ 80,589 | \$ - | \$ 115,394 |
| Available-for-sale financial assets | | | | |
| – Valuation adjustment in the period | 60,296 | - | - | 60,296 |
| – Realised gain and loss in the period | (2,629) | - | - | (2,629) |
| Changes in translation difference of foreign operating entities | - | 54,937 | - | 54,937 |
| Valuation adjustment relating to its credit risk | - | - | (9,035) | (9,035) |
| At December 31, 2015 | <u>\$ 92,472</u> | <u>\$ 135,526</u> | <u>(\$ 9,035)</u> | <u>\$ 218,963</u> |

(24) Share-based payment

A. The Company's ultimate parent company, DBS Group Holdings Ltd, introduced the DBSH Share Plan and DBSH Employee Share Plan.

(A) DBSH Share Plan

The DBSH Share Plan (the "Share Plan") caters to Group executives as determined by the Committee appointed to administer the Share Plan from time to time. Participants are awarded shares of the ultimate company, their equivalent cash value or a combination. Awards made under the Share Plan consist of main award and retention award (20% of main awards). The vesting of main award is staggered between 2-4 years after grant i.e. 33% will vest 2 years after grant. Another 33% will vest on the third year and the remainder 34% plus the retention award will vest 4 years after grant. The fair value of the shares awarded is computed based on the market price of the ordinary shares at the time of the award and is recognised through comprehensive income statement over the vesting period. Actions that violate the Company's governance provisions will result in shares being recalled.

(B) DBSH Employee Share Plan

The DBSH Employee Share Plan (the "ESP") caters to employees who are not eligible to participate in the above listed Share Plan. Eligible employees are awarded ordinary shares of the ultimate company, their equivalent cash value or a combination of both at the discretion of the Committee, when time-based conditions are met. The awards structure and vesting conditions are similar to the Share Plan. There are no additional retention awards for shares granted to top performers and key employees. However, in specific cases where the award forms part of an employee's annual performance remuneration, the retention award which constitutes 20% of the shares given in the main award will be granted. The shares in the retention award will vest 4 years after the date of grant. Actions that violate the Company's governance provisions will result in shares being recalled.

| Type of arrangement | Grant date | Quantity granted | Vesting conditions | Actual resignation rate in the current period | Estimated resignation rate |
|---------------------|------------|------------------|--------------------|---|----------------------------|
| Share Plan | 2012.2.20 | 184,981 | 2014.2.20 – 33% | 0% | 5% |
| | | | 2015.2.20 – 33% | | |
| | | | 2016.2.20 – 34% | | |
| ESP | 2012.2.20 | 42,700 | 2014.2.20 – 33% | 0% | 5% |
| | | | 2015.2.20 – 33% | | |
| | | | 2016.2.20 – 34% | | |
| Share Plan | 2013.2.18 | 205,923 | 2015.2.18 – 33% | 3% | 5% |
| | | | 2016.2.18 – 33% | | |
| | | | 2017.2.18 – 34% | | |
| ESP | 2013.2.18 | 51,273 | 2015.2.18 – 33% | 4% | 5% |
| | | | 2016.2.18 – 33% | | |
| | | | 2017.2.18 – 34% | | |
| Share Plan | 2014.2.25 | 201,402 | 2016.2.25 – 33% | 2% | 5% |
| | | | 2017.2.25 – 33% | | |
| | | | 2018.2.25 – 34% | | |
| ESP | 2014.2.25 | 60,295 | 2016.2.25 – 33% | 22% | 5% |
| | | | 2017.2.25 – 33% | | |
| | | | 2018.2.25 – 34% | | |
| Share Plan | 2015.2.12 | 178,992 | 2017.2.12 – 33% | 3% | 5% |
| | | | 2018.2.12 – 33% | | |
| | | | 2019.2.12 – 34% | | |
| ESP | 2015.2.12 | 59,984 | 2017.2.12 – 33% | 18% | 5% |
| | | | 2018.2.12 – 33% | | |
| | | | 2019.2.12 – 34% | | |
| Share Plan | 2016.2.24 | 237,641 | 2018.2.24 – 33% | 1% | 5% |
| | | | 2019.2.24 – 33% | | |
| | | | 2020.2.24 – 34% | | |
| ESP | 2016.2.24 | 89,927 | 2018.2.24 – 33% | 8% | 5% |
| | | | 2019.2.24 – 33% | | |
| | | | 2020.2.24 – 34% | | |

B. Expense incurred by share-based payment transactions for the years ended December 31, 2016 and 2015 were \$91,978 and \$87,581, respectively.

(25) Net interest income

| | <u>For the year ended December 31,</u> | |
|--|--|---------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Interest income</u> | | |
| Interest income from bills discounted and loans | \$ 4,961,372 | \$ 5,261,417 |
| Interest income on factoring receivable | 158,368 | 133,333 |
| Interest income on securities investment | 408,787 | 513,115 |
| Interest income from call loans to banks and due from banks | 437,823 | 578,198 |
| Others | 31,530 | 11,297 |
| Subtotal | <u>5,997,880</u> | <u>6,497,360</u> |
| <u>Interest expense</u> | | |
| Interest expense of deposits | (2,014,214) | (2,565,970) |
| Interest expense of Central Bank and other banks' deposit and of due to the Central Bank and other banks | (230,755) | (285,421) |
| Others | (16,924) | (18,741) |
| Subtotal | <u>(2,261,893)</u> | <u>(2,870,132)</u> |
| Total | <u>\$ 3,735,987</u> | <u>\$ 3,627,228</u> |

(26) Net fee and commission income

| | <u>For the year ended December 31,</u> | |
|-----------------------------------|--|---------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Fee and commission income</u> | | |
| Fee income on loans | \$ 281,303 | \$ 448,708 |
| Fee income on trust business | 537,624 | 253,928 |
| Fee income on imports and exports | 28,478 | 36,796 |
| Fee income on guarantee | 138,108 | 101,465 |
| Fee income on factoring | 64,171 | 58,398 |
| Fee income on remittance | 42,884 | 28,971 |
| Fee income on insurance business | 648,680 | 540,303 |
| Others | 40,799 | 36,762 |
| Subtotal | <u>1,782,047</u> | <u>1,505,331</u> |
| <u>Fee and commission expense</u> | | |
| Interbank service fee | (14,210) | (16,932) |
| Commission expense on factoring | (13,799) | (12,806) |
| Others | (79,682) | (75,353) |
| Subtotal | <u>(107,691)</u> | <u>(105,091)</u> |
| Total | <u>\$ 1,674,356</u> | <u>\$ 1,400,240</u> |

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

| | <u>For the year ended December 31,</u> | |
|---|--|---------------------|
| | <u>2016</u> | <u>2015</u> |
| <u>Realised gain or loss on financial assets and financial liabilities at fair value through profit or loss</u> | | |
| Bonds | \$ 198,467 | \$ 228,391 |
| Financial bonds payable | (23,350) | (3,426) |
| Interest-linked instruments | (68,294) | (42,705) |
| Exchange rate-linked instruments | 779,841 | 1,922,459 |
| Other derivative instruments | 66,833 | 59,878 |
| Subtotal | <u>953,497</u> | <u>2,164,597</u> |
| <u>Unrealised gain or loss on financial assets and financial liabilities at fair value through profit or loss</u> | | |
| Bonds | (137,872) | 74,737 |
| Financial bonds payable | (343) | 124,647 |
| Interest-linked instruments | 111,903 | (99,080) |
| Exchange rate-linked instruments | (753,868) | (1,644,280) |
| Subtotal | <u>(780,180)</u> | <u>(1,543,976)</u> |
| Total | <u>\$ 173,317</u> | <u>\$ 620,621</u> |

A. The realised gains (losses) on the financial assets and liabilities at fair value through profit or loss of the Company for the years ended December 31, 2016 and 2015, including the gain and loss on disposal, were \$847,488 and \$1,998,193, and the net interest income were \$106,009 and \$166,404, respectively. Credit risk adjustment is considered and incorporated into the aforementioned unrealised gain or loss.

B. Interest-linked instruments include interest rate swap contracts and interest rate futures.

C. Net income on the exchange rate-linked instruments include realised and unrealised gains and losses on forward exchange contracts, non-delivery FX forwards, cross currency swap contracts and foreign exchange options.

(28) Realised gains or losses on available-for-sale financial assets

| | <u>For the year ended December 31,</u> | |
|---------------------------|--|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Gain on disposal of bonds | <u>\$ 18,527</u> | <u>\$ 2,629</u> |

(29) Other non-interest income

| | <u>For the year ended December 31,</u> | |
|--|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Rental income | \$ 5,033 | \$ 6,849 |
| Dividends income | 17,015 | 13,692 |
| Loss from retirement of property and equipment and intangible assets | (2,320) | (2,045) |
| Others | 22,333 | 28,163 |
| Total | <u>\$ 42,061</u> | <u>\$ 46,659</u> |

(30) Employee benefit expenses

| | For the year ended December 31, | |
|------------------------------------|---------------------------------|---------------------|
| | 2016 | 2015 |
| Wages and salaries | \$ 2,727,089 | \$ 2,597,850 |
| Labor and health insurance expense | 166,510 | 166,681 |
| Pension costs | 107,058 | 103,155 |
| Other employee benefit expense | 70,508 | 103,177 |
| Total | <u>\$ 3,071,165</u> | <u>\$ 2,970,863</u> |

1. In accordance with the Articles of Incorporation, if there are profits earned, at least 0.001% of those profits shall be allocated to employees as employees' compensation. However, when there is accumulated deficit, the Company shall retain the amount upfront.
2. The employees' compensation was estimated and accrued at \$3 and \$5 based on 0.001% of distributable profit of current year for the years ended December 31, 2016 and 2015, respectively. The employees' compensation is recognised as "Wages and salaries" in the employee benefit expenses and it will be distributed in the form of cash.

For the year ended December 31, 2015, employees' compensation as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2015 financial statements. Differences, if any, are accounted for as changes in accounting estimates.

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

(31) Depreciation and amortisation expenses

| | For the year ended December 31, | |
|-------------------------------------|---------------------------------|-------------------|
| | 2016 | 2015 |
| Property and equipment depreciation | \$ 145,495 | \$ 183,678 |
| Investment properties depreciation | 1,440 | 2,007 |
| Intangible assets amortisation | 55,919 | 53,477 |
| Total | <u>\$ 202,854</u> | <u>\$ 239,162</u> |

(32) Other general and administrative expenses

| | For the year ended December 31, | |
|------------------------------|---------------------------------|---------------------|
| | 2016 | 2015 |
| Tax | \$ 339,735 | \$ 363,894 |
| Service fee to affiliates | 367,371 | 344,061 |
| Rental expense | 347,033 | 355,332 |
| Insurance expense | 123,875 | 141,015 |
| Repairs and maintenance | 63,892 | 83,732 |
| Advertisement expense | 57,765 | 57,024 |
| Computer maintenance expense | 62,146 | 43,113 |
| Others | 567,122 | 626,634 |
| Total | <u>\$ 1,928,939</u> | <u>\$ 2,014,805</u> |

(33) Income tax

A. Income tax expense

(A) Components of income tax expense:

| | <u>For the year ended December 31,</u> | |
|---|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Current tax | | |
| Current tax on profits for the period | \$ 110,180 | \$ 24,268 |
| Tax on undistributed surplus earnings | - | 30,615 |
| Adjustments in respect of prior years | - | (462) |
| Subtotal | <u>110,180</u> | <u>54,421</u> |
| Deferred tax | | |
| Origination and reversal of temporary differences | (68,039) | 42,531 |
| Income tax expense | <u>\$ 42,141</u> | <u>\$ 96,952</u> |

(B) Income tax in relation to components of other comprehensive income (loss):

| | <u>For the year ended December 31,</u> | |
|---|--|-----------------|
| | <u>2016</u> | <u>2015</u> |
| Remeasurement arising on defined benefit plan | <u>\$ 1,217</u> | <u>(\$ 521)</u> |

B. Reconciliation between income tax expense and accounting profit

| | <u>For the year ended December 31,</u> | |
|--|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Tax calculated based on profit before tax and statutory rate | \$ 78,837 | \$ 88,390 |
| Effects from items disallowed by tax regulation | (48,258) | (21,574) |
| Tax on undistributed surplus earnings | - | 30,615 |
| Effect from Alternative Minimum Tax | 11,562 | (17) |
| Adjustments in respect of prior years | - | (462) |
| Income tax expense | <u>\$ 42,141</u> | <u>\$ 96,952</u> |

C. Details of temporary differences and loss carryforwards resulting in deferred income tax assets or liabilities are as follows:

| | 2016 | | | |
|---|-------------|------------------------------|--|-------------|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences | | | | |
| –Deferred income tax assets | | | | |
| Allowance for credit losses | \$ - | \$ 66,288 | \$ - | \$ 66,288 |
| Salary expenses – Employee Stock Options | 17,292 | 1,380 | - | 18,672 |
| Rental expenses | 10,252 | (616) | - | 9,636 |
| Decommissioning liabilities | 4,969 | 544 | - | 5,513 |
| Unrealised pension expense | 4,915 | 540 | (1,217) | 4,238 |
| Loss carryforwards | 39,396 | (39,396) | - | - |
| Subtotal | \$ 76,824 | \$ 28,740 | (\$ 1,217) | \$ 104,347 |
| – Deferred income tax liabilities | | | | |
| Unrealised (gain) loss on financial instruments | (\$ 55,139) | \$ 39,299 | \$ - | (\$ 15,840) |
| Total | \$ 21,685 | \$ 68,039 | (\$ 1,217) | \$ 88,507 |

| | 2015 | | | |
|---|-----------|------------------------------|--|-------------|
| | January 1 | Recognised in profit or loss | Recognised in other comprehensive income | December 31 |
| Temporary differences | | | | |
| –Deferred income tax assets | | | | |
| Salary expenses – Employee Stock Options | \$ 19,921 | (\$ 2,629) | \$ - | \$ 17,292 |
| Rental expenses | 9,094 | 1,158 | - | 10,252 |
| Decommissioning liabilities | 4,343 | 626 | - | 4,969 |
| Unrealised pension expense | 6,533 | (2,139) | 521 | 4,915 |
| Unrealised (gain) loss on financial instruments | 23,804 | (23,804) | - | - |
| Loss carryforwards | - | 39,396 | - | 39,396 |
| Subtotal | \$ 63,695 | \$ 12,608 | \$ 521 | \$ 76,824 |
| – Deferred income tax liabilities | | | | |
| Unrealised (gain) loss on financial instruments | \$ - | (\$ 55,139) | \$ - | (\$ 55,139) |
| Total | \$ 63,695 | (\$ 42,531) | \$ 521 | \$ 21,685 |

D. Unappropriated earnings and related information

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|-------------------|-------------------|
| Earnings generated after 1998 | \$ 1,186,101 | \$ 1,299,097 |

E. Imputation tax credit account for shareholders and related information

| | December 31, 2016 | December 31, 2015 |
|--|-------------------|-------------------|
| Balances of the imputation tax credit account for shareholders | \$ 281,327 | \$ 285,475 |

The creditable tax rates are 23.72% (estimated) and 21.97% for the years 2016 and 2015, respectively.

- F. Tax returns of the Company have been assessed by the Tax Authorities through year 2014. With respect to the income tax return for 2014, the Tax Authorities disallowed the service fee to affiliates and some of the withholding taxes. The Company disagreed with the assessment and has filed a petition for reexamination. In addition, with respect to the income tax return for 2013 and 2012, the Tax Authorities disallowed the service fee to affiliates. The Company disagreed with the assessment and has filed an administrative appeal. In the opinion of the Company, the above tax matters do not have any material impact on the operations and financial situation.

(34) Earnings per share

A. Basic earnings per share

Basic earnings per share is calculated by dividing profits attributable to common shareholders of the parent company with the weighted-average outstanding common shares during the year.

| | <u>For the year ended December 31, 2016</u> | | |
|--|---|---|--|
| | <u>Amount after tax</u> | <u>Adjusted weighted average outstanding common shares (in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| Profits attributable to common shareholders | \$ <u>277,599</u> | 2,200,000 | \$ <u>0.13</u> |
| Profits attributable to former equity under common control | \$ <u>144,007</u> | | \$ <u>-</u> |

| | <u>For the year ended December 31, 2015</u> | | |
|--|---|---|--|
| | <u>Amount after tax</u> | <u>Adjusted weighted average outstanding common shares (in thousands)</u> | <u>Earnings per share (in dollars)</u> |
| Profits attributable to common shareholders | \$ <u>310,658</u> | 2,200,000 | \$ <u>-</u> |
| Profits attributable to former equity under common control | \$ <u>112,332</u> | | \$ <u>-</u> |

- B. Basic earnings per share of profits attributable to the parent company for the year ended December 31, 2015, was retrospectively adjusted to reflect the \$303,342 preferred shares cash dividends declared for distribution on April 22, 2016.

7. RELATED PARTY TRANSACTIONS

(1) Names and relationship of related parties

| Names of related parties | Relationship with the Company |
|---|---|
| DBS Bank Ltd (hereinafter "DBS Bank") and its branches all over the world | The parent company of the Company |
| DBS Bank (China) Ltd | Controlled by the same company |
| DBS Bank (Hong Kong) Ltd | Controlled by the same company |
| PT Bank DBS Indonesia | Controlled by the same company |
| Others (each related party's deposits or loans less than 1% of total deposits or loans) | Directors, supervisors, executives and their relatives of the Company and affiliated entities |

(2) Significant transactions and balances with related parties

A. Deposits

| December 31, 2016 | | | |
|--|----------------|----------------------------|-------------------|
| Name | Ending balance | Percentage of Deposits (%) | Interest rate (%) |
| Others (Deposits of each related party less than 1% of total deposits) | \$ 284,935 | 0.10 | 0%~1.60% |

| December 31, 2015 | | | |
|--|----------------|----------------------------|-------------------|
| Name | Ending balance | Percentage of Deposits (%) | Interest rate (%) |
| Others (Deposits of each related party less than 1% of total deposits) | \$ 356,178 | 0.14 | 0%~2.15% |

The interest rates and other terms and conditions provided to related parties were the same as those offered to the general depositors.

For the years ended December 31, 2016 and 2015, interest expense paid by the Company as a result of the above-mentioned transactions was \$1,705 and \$2,138, respectively.

B. Loans and receivables

December 31, 2016

| Types | Number of accounts or name of related party | Maximum balance during the period | Ending balance | Loan status | | Collateral | Whether terms and conditions of the related party transactions are different from those of transactions with third parties |
|----------------------------|---|-----------------------------------|----------------|--------------|---------------|-------------|--|
| | | | | Normal loans | Overdue loans | | |
| Residential mortgage loans | 2 | \$31,949 | \$ 30,890 | \$ 30,890 | \$ - | Real estate | None |
| Other receivables | 26 | 2,044 | 643 | 643 | - | None | None |
| Total | | | \$ 31,533 | \$ 31,533 | \$ - | | |

December 31, 2015

| Types | Number of accounts or name of related party | Maximum balance during the period | Ending balance | Loan status | | Collateral | Whether terms and conditions of the related party transactions are different from those of transactions with third parties |
|----------------------------|---|-----------------------------------|----------------|--------------|---------------|-------------|--|
| | | | | Normal loans | Overdue loans | | |
| Residential mortgage loans | 2 | \$33,060 | \$ 32,042 | \$ 32,042 | \$ - | Real estate | None |
| Other receivables | 27 | 2,539 | 1,084 | 1,084 | - | None | None |
| Total | | | \$ 33,126 | \$ 33,126 | \$ - | | |

For the years ended December 31, 2016 and 2015, interest income received by the Company as a result of the above-mentioned transactions was \$540 and \$621, respectively.

C. Interbank funds transfer

Interbank funds transfer transactions of the Company and its related parties:

| Types | Name | December 31, 2016 | December 31, 2015 |
|--|--------------------------|-------------------|-------------------|
| Due from banks | Parent | | |
| | DBS Bank | \$ 257,445 | \$ 208,334 |
| | Other related parties | | |
| | DBS Bank (Hong Kong) Ltd | 111,722 | 82,686 |
| | DBS Bank (China) Ltd | 12,483 | 3,532 |
| | PT Bank DBS Indonesia | 102 | 102 |
| | | <u>\$ 381,752</u> | <u>\$ 294,654</u> |
| Call loans to banks | Parent | | |
| | DBS Bank | \$ 27,006,841 | \$ 13,797,635 |
| Call loans from and due to other banks | Parent | | |
| | DBS Bank | \$ 11,651,838 | \$ 45,476,918 |

Interest income (expense) received from (paid to) related parties for the interbank funds transfer transactions between the Company and its related parties:

| Types | Name | For the year ended December 31, | |
|------------------|--------------------------|---------------------------------|-------------------|
| | | 2016 | 2015 |
| Interest income | Parent | | |
| | DBS Bank | \$ 163,574 | \$ 230,759 |
| Interest expense | Parent | | |
| | DBS Bank | \$ 204,735 | \$ 258,657 |
| | Other related parties | | |
| | DBS Bank (Hong Kong) Ltd | - | 12 |
| | | <u>\$ 204,735</u> | <u>\$ 258,669</u> |

D. Interest receivable and other receivables

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------|--------------------------|--------------------------|
| Parent | | |
| DBS Bank | \$ <u>30,171</u> | \$ <u>101,339</u> |

E. Refundable deposits

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------|--------------------------|--------------------------|
| Parent | | |
| DBS Bank | \$ <u>2,252,820</u> | \$ <u>7,046,317</u> |

The refundable deposits to DBS Bank are set aside in accordance with relevant regulations and contracts by the Company with regard to the risk of derivatives.

F. Affiliates' service fees payable

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--------------------------|--------------------------|--------------------------|
| Parent | | |
| DBS Bank | \$ 79,991 | \$ 87,053 |
| Other related parties | | |
| DBS Bank (Hong Kong) Ltd | 6,139 | 3,860 |
| DBS Bank (China) Ltd | 739 | 808 |
| | \$ <u>86,869</u> | \$ <u>91,721</u> |

G. Payable from settlement of bond transactions

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------|--------------------------|--------------------------|
| Parent | | |
| DBS Bank | \$ <u>298,688</u> | \$ <u>-</u> |

H. Interest payable and other payables

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|----------|--------------------------|--------------------------|
| Parent | | |
| DBS Bank | \$ <u>88,058</u> | \$ <u>75,524</u> |

I. Other financial liabilities – Principal of structured deposits

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--------|--------------------------|--------------------------|
| Others | \$ <u>18,462</u> | \$ <u>42,353</u> |

J. Net fee and commission income

| | <u>For the year ended December 31,</u> | |
|----------|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Parent | | |
| DBS Bank | \$ <u>335,736</u> | \$ <u>19,038</u> |

K. Other income

| | <u>For the year ended December 31,</u> | |
|----------|--|------------------|
| | <u>2016</u> | <u>2015</u> |
| Parent | | |
| DBS Bank | \$ <u>13,066</u> | \$ <u>12,420</u> |

L. Service fee to affiliates

| | For the year ended December 31, | |
|--------------------------|---------------------------------|-------------------|
| | 2016 | 2015 |
| Parent | | |
| DBS Bank | \$ 339,870 | \$ 320,613 |
| Other related parties | | |
| DBS Bank (Hong Kong) Ltd | 24,440 | 20,265 |
| DBS Bank (China) Ltd | 3,061 | 3,183 |
| | <u>\$ 367,371</u> | <u>\$ 344,061</u> |

M. Guarantees

| | For the year ended December 31, 2016 | | | | |
|--------------------------|--------------------------------------|----------------|--|-----------------------|------------|
| | Maximum balance during the period | Ending Balance | Balance of guarantee liability reserve | Range of fees Charged | Collateral |
| Parent | | | | | |
| DBS Bank | \$ 1,761,207 | \$ 602,365 | \$ 6,024 | USD75~USD150 | None |
| Other related parties | | | | | |
| PT Bank DBS Indonesia | \$ 40,074 | \$ 38,661 | \$ 387 | USD75~USD150 | None |
| | | | | | |
| | For the year ended December 31, 2015 | | | | |
| | Maximum balance during the period | Ending Balance | Balance of guarantee liability reserve | Range of fees Charged | Collateral |
| Parent | | | | | |
| DBS Bank | \$ 3,668,413 | \$ 809,620 | \$ 3,319 | USD75~USD150 | None |
| Other related parties | | | | | |
| DBS Bank (Hong Kong) Ltd | \$ 2,500 | \$ 1,500 | \$ 6 | USD75~USD150 | None |
| PT Bank DBS Indonesia | \$ 39,475 | \$ 39,407 | \$ 162 | USD75~USD150 | None |

N. The contract notional principal of the Company's outright bond purchase transactions with related parties (with Parent, DBS Bank) for the years ended December 31, 2016 and 2015, was \$13,950,000 and \$8,000,000, respectively; the contract notional principal of the Company's outright bond sale transactions with related parties (with Parent, DBS Bank) for the years ended December 31, 2016 and 2015, was \$12,048,300 and \$11,600,000, respectively. The gains (losses) on the financial assets and liabilities at fair value through profit or loss of the Company as a result of the aforementioned transactions were \$41,535 and \$134,908, respectively.

O. Derivative financial instruments

The principal and amount receivable (payable) incurred from derivative financial instrument transactions with related parties as of December 31, 2016 and 2015 were as follows:

Parent - DBS Bank

| | December 31, 2016 | | | December 31, 2015 | | |
|-------------------------------|-----------------------------|--------------------------------|--|-----------------------------|--------------------------------|--|
| | Contract duration Period | Contract notional principal | Receivable from (payable to) related parties (including valuation adjustment) | Contract duration Period | Contract notional principal | Receivable from (payable to) related parties (including valuation adjustment) |
| Forward exchange contracts | 2015.2.16~ 2018.1.3 | \$ 255,454,814 | \$ 1,132,281 | 2014.7.4 ~ 2017.5.22 | \$ 169,818,356 | \$ 447,267 |
| Non-delivery FX forwards | 2016.1.15~ 2017.12.27 | \$ 13,514,828 | \$ 25,545 | 2014.12.31~ 2016.7.28 | \$ 8,527,440 | \$ 38,503 |
| Interest rate swap contracts | 2012.1.11~ 2146.7.2 | \$ 157,469,710 | (\$ 147,910) | 2012.1.11~ 2145.10.16 | \$ 119,697,558 | (\$ 232,561) |
| Cross currency swap contracts | 2015.8.3~ 2017.8.3 | \$ 1,417,500 | \$ 32,903 | 2013.10.21~ 2017.8.3 | \$ 8,686,998 | \$ 383,726 |
| Foreign exchange options | 2015.2.5~ 2017.12.7 | \$ 54,756,018 | (\$ 2,172,668) | 2014.10.27~ 2017.12.7 | \$ 148,322,754 | (\$ 7,136,878) |
| Commodity swap | - | \$ - | \$ - | 2015.1.1 ~ 2017.1.4 | \$ 36,348 | (\$ 35,459) |
| Interest rate futures | 2016.12.22~ 2017.3.31 | \$ 354,393 | (\$ 133) | 2015.3.12~ 2016.12.19 | \$ 13,004,442 | (\$ 13,089) |
| Equity swap | 2015.8.17~ 2017.8.24 | \$ 31,132 | (\$ 1,830) | 2015.8.17 ~ 2017.8.24 | \$ 33,693 | (\$ 1,419) |

Receivable from (payable to) related parties (including valuation adjustment) recognised as "Financial assets (liabilities) measured at fair value through profit or loss."

P. Key management personnel compensation

| | For the year ended December 31, | |
|---|---------------------------------|------------|
| | 2016 | 2015 |
| Salary and other short-term employee benefits | \$ 242,052 | \$ 274,920 |
| Post-employment benefits | 2,510 | 2,625 |
| Total | \$ 244,562 | \$ 277,545 |

8. PLEDGED ASSETS

As of December 31, 2016 and 2015, the Company's assets provided for reserve for trust funds, intraday overdraft during settlement, interbank transactions, insurance agency business' operational guarantee deposits, bills finance business' deposit, security department's operational guarantee deposits and clearing and settlement fund and guarantees with the court for the provisional seizure are as follows:

| <u>Item</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|---|--------------------------|--------------------------|
| Accounts receivable – matured government bonds | \$ 4,700 | \$ - |
| Available-for-sale financial assets – government bonds | 548,300 | 516,100 |
| Available-for-sale financial assets – certificates of deposit | 7,500,000 | 7,300,000 |
| Total | <u>\$ 8,053,000</u> | <u>\$ 7,816,100</u> |

To comply with the Central Bank's clearing system of Real-time Gross Settlement (RTGS), as of December 31, 2016 and 2015, certificates of deposit amounting to \$2,000,000, had been provided as collateral for intraday overdraft. However, pledged amounts may be adjusted anytime.

9. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNISED CONTRACTUAL COMMITMENTS

(1) Commitments

A. Operating leases

Please see Note 12 (3) C (G).

B. Capital expenditure contracted but yet to be incurred : None.

- C. On October 30, 2016 and November 16, 2016, the Board of Directors and the shareholders meeting of the Company approved the acquisition and resolved that the Company will assume the retail and wealth management business of ANZ Bank (Taiwan) Limited (hereinafter "ANZ Taiwan"), respectively. On December 27, 2016, the Company and ANZ Taiwan signed a division plan. The Company is scheduled to absorb ANZ Taiwan's retail and wealth management business and related assets and liabilities by way of demerger in accordance with Article 35 of the Business Mergers and Acquisitions Act and applicable laws and regulations. Currently, this division plan is subject to the competent authority's approval.

(2) Others :

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--|--------------------------|--------------------------|
| Non-cancellable loan commitments | \$ 23,377,137 | \$ 16,068,159 |
| Unused credit commitments for credit cards | 21,741 | 23,913 |
| Unused letters of credit issued | 2,391,319 | 2,539,852 |
| Guarantees | 14,402,530 | 18,849,534 |
| Collections receivable for customers | 1,169,515 | 1,511,574 |
| Trust assets | 24,271,941 | 21,193,518 |
| Guaranteed notes | 8,053,000 | 7,816,100 |

(3) Content and amount of trust operations per “Trust Enterprise Act”

The trust balance sheet, income statement and schedule of investments as required to be disclosed in compliance with the Article 17 of the “Enforcement Rules of the Trust Enterprise Act” are as follows:

A. Trust balance sheet

| <u>Trust assets</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------|--------------------------|--------------------------|
| Fund investments | \$ 15,030,239 | \$ 15,812,277 |
| Offshore structured products | 4,409,321 | 1,020,011 |
| Foreign bonds | 2,435,353 | 1,639,213 |
| Advanced receipt trust | 450 | 3,800 |
| Real estate | 2,396,578 | 2,718,217 |
| Total | <u>\$ 24,271,941</u> | <u>\$ 21,193,518</u> |

| <u>Trust liabilities</u> | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|--------------------------|--------------------------|--------------------------|
| Trust capital | <u>\$ 24,271,941</u> | <u>\$ 21,193,518</u> |
| Total | <u>\$ 24,271,941</u> | <u>\$ 21,193,518</u> |

B. Schedule of investments

| | <u>December 31, 2016</u> | <u>December 31, 2015</u> |
|------------------------------|--------------------------|--------------------------|
| Fund investments | | |
| Overseas mutual funds | \$ 13,835,748 | \$ 14,885,312 |
| Domestic mutual funds | 1,194,491 | 926,965 |
| Offshore structured products | 4,409,321 | 1,020,011 |
| Foreign bonds | 2,435,353 | 1,639,213 |
| Advanced receipt trust | 450 | 3,800 |
| Real estate | | |
| Land | 2,164,355 | 2,481,511 |
| Buildings | 2,496 | 209 |
| Advances | 229,727 | 142,619 |
| Funding account | - | 93,878 |
| Total | <u>\$ 24,271,941</u> | <u>\$ 21,193,518</u> |

Note: Foreign currency pecuniary trust operated by the Offshore Banking Unit (OBU) as of December 31, 2016 and 2015, was included in the trust balance sheet and schedule of investments for the trust business.

C. For the years ended December 31, 2016 and 2015, there were no trust revenue, trust expense and trust net income.

- (4) Due to a few of the Company’s institutional banking clients engaging in complex and high-risk derivative transactions (e.g. Target Redemption Forwards) that resulted in losses and complaints on disputes from these transactions (hereinafter “TRF dispute cases”), the clients have appealed to the Company as well as the regulators. Based on the principle of fair dealing and to protect customers’ interests, as soon as complaints are received from a client, the Company will proactively negotiate with the client following the Company’s internal procedure and the guidance from regulators to settle the disputes. Currently, some clients have filed complaints to the Financial Ombudsman Institution (FOI), and these cases are currently under the review of FOI. The Company will continually and proactively settle TRF dispute cases with clients and will pay close attention to the progress and next steps of TRF dispute cases.

10. SIGNIFICANT LOSSES FROM DISASTERS

None.

11. SIGNIFICANT SUBSEQUENT EVENT

None.

12. OTHERS

(1) Information of fair value of financial instruments

A. The fair value of financial instruments not measured at fair value

The book value of the financial instruments which are not measured at fair value approaches its fair value, or its fair value cannot be measured reliably. Methods and assumptions adopted by the Company are summarized as follows:

- (A) Fair values of short-term financial instruments are estimated at carrying amounts (less allowance for credit losses) at balance sheet date, as the maturity date is near the balance sheet date or the future receivable or payable amount is close to the carrying amount. This method applies to cash and cash equivalents, due from Central Bank and call loans to other banks, investment in bills and bonds under reverse repurchase agreements, receivables, other financial assets (exclusive of financial assets carried at cost), due to Central Bank and other banks, investment in bills and bonds under repurchase agreements, payables and other financial liabilities.
- (B) Bills discounted and loans: The interest on bills discounted and loans are mainly based on a floating rate basis. Thus, considering the possibility of expected recoveries, the carrying amount is approximate to its current fair value.
- (C) Deposits and remittances: Most deposits and remittances have maturity of less than one year. Those within maturity over one year are mainly on a floating rate basis and therefore the carrying value is deemed as the current fair value.
- (D) Other financial assets – financial assets carried at cost: The fair value estimate in each threshold could vary significantly. In addition, the probability of estimate in each threshold cannot be reasonably estimated resulting in the fair value cannot be measured reasonably. As a result, the fair value is not disclosed.
- (E) Refundable deposits: Due to uncertainty of the maturity date, the fair value is estimated at the book value.

B. Financial instruments measured at fair value

The financial instruments measured at fair value are recognised as financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets.

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

- (A) Financial instruments are initially recognised by fair value, which is transaction price in most cases. Subsequent recognitions are measured by fair value except that certain financial instruments are recognised by amortised cost. In the subsequent measurements, the best evidence of fair value is the quoted market price in an active market.

- (B) If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above mentioned conditions are not met, the market is regarded as inactive. Generally the indications of an inactive market include large difference of selling price and purchasing price, significant increase in the difference of selling price and purchasing price or small volume of transactions.
- (C) Valuations of OTC traded products are determined using generally accepted models (discounted cash flows, Black-Scholes model, interpolation techniques) based on quoted market prices for similar instruments or underlying. The majority of valuation techniques employ only observable market data as inputs including but not limited to yield curves, volatilities and foreign exchange rates.
- (D) For illiquid complex financial instruments where mark-to-market is not possible, the Company will value these products using an approved valuation model. Prices and parameters used as inputs to the model or to any intermediate technique involving a transformation process must be derived from approved market reliable sources. Where possible, the inputs must be checked against multiple sources for reliability and accuracy.

C. Fair value adjustment

- (A) The output of valuation model is an estimated value and the valuation technique may not be able to capture all relevant factors of the Company's financial instruments. Therefore, the estimated value derived using valuation model is adjusted accordingly with additional inputs. In accordance with the Company's "Valuation Policy and Supporting Standards" and relevant control procedures relating to the valuation models used for fair value measurement, management believes adjustment to valuation is necessary in order to reasonably represent the fair value of financial instruments at the balance sheet. The inputs and pricing information used during valuation are carefully assessed and adjusted based on current market conditions.
- (B) Credit valuation adjustments are taken to reflect the impact on fair value of counterparty credit risk and the Company's credit quality.

(2) Fair value hierarchy

- A. The different levels that the inputs to valuation techniques are used to measure fair value of financial instruments have been defined as follows:

(A) Level 1

Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A market is regarded as active where market in which transactions for the asset or liability takes place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(B) Level 2

Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The Company's investment in government bonds, corporate bonds, most of derivatives, and financial liabilities designated as at fair value through profit or loss on initial recognition are all

classified within Level 2.

(C) Level 3

Unobservable inputs for the asset or liability. When there is reliance on unobservable inputs to the valuation model attributing to a significant contribution to the instrument value, the financial instrument will be categorised as Level 3.

B. Fair value hierarchy information on financial instruments

Fair value hierarchy information on financial instruments as of December 31, 2016 and 2015 are as follows :

| <u>Recurring fair value measurements</u> | <u>December 31, 2016</u> | | | |
|---|--------------------------|----------------|----------------|----------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Non-derivative financial instruments</u> | | | | |
| <u>Assets</u> | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading purposes | | | | |
| Bond investments | \$ 9,708,469 | \$ - | \$ 9,708,469 | \$ - |
| Available-for-sale financial assets | | | | |
| Bond investments | 12,545,853 | - | 12,545,853 | - |
| Others | 45,753,662 | - | 45,753,662 | - |
| <u>Liabilities</u> | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities for trading purposes | | | | |
| Borrowed securities payables | 284,344 | - | 284,344 | - |
| Financial liabilities designated as at fair value through profit or loss on initial recognition | 1,864,719 | - | 1,864,719 | - |
| <u>Derivative financial instruments</u> | | | | |
| <u>Assets</u> | | | | |
| Financial assets at fair value through profit or loss | 8,303,072 | 510 | 8,302,562 | - |
| <u>Liabilities</u> | | | | |
| Financial liabilities at fair value through profit or loss | 8,628,549 | 643 | 8,627,906 | - |

| <u>Recurring fair value measurements</u> | December 31, 2015 | | | |
|---|-------------------|----------------|----------------|----------------|
| | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| <u>Non-derivative financial instruments</u> | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | | | | |
| Financial assets held for trading purposes | | | | |
| Bond investments | \$ 19,735,700 | \$ - | \$ 19,735,700 | \$ - |
| Available-for-sale financial assets | | | | |
| Bond investments | 18,389,437 | - | 18,389,437 | - |
| Others | 63,844,708 | - | 63,844,708 | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | | | | |
| Financial liabilities for trading purposes | | | | |
| Borrowed securities payables | \$ 149,710 | \$ - | \$ 149,710 | - |
| Financial liabilities designated as at fair value through profit or loss on initial recognition | 1,855,455 | - | 1,855,455 | - |
| <u>Derivative financial instruments</u> | | | | |
| Assets | | | | |
| Financial assets at fair value through profit or loss | 10,294,050 | 634 | 10,293,416 | - |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 9,977,562 | 13,723 | 9,963,839 | - |

C. Transfers between level 1 and level 2

There were no transfers between level 1 and level 2 for the above-mentioned period.

(3) Management objective and policy for financial risk

Objectives of the Company's financial risk management are based on the principles of serving customers and meeting operational objectives of financial related operations, holistic risk appetite and external regulation limits, in order to effectively allocate transfer and avoid risks, and meet the objective of satisfying customers, shareholders and employees. Major risks faced by the Company's operations include various credit risk, market risk (including interest rate, exchange rate, equity instruments, and commodity prices) and liquidity risk.

The Company has established risk management policies and risk controls and mitigation processes in writing which have been approved by the Board, in order to effectively identify measure, monitor and control credit risk, market risk and liquidity risk.

A. Risk management framework

Risk management of the Company is performed by the risk management department according to risk management policies approved by the Board. Risk management department closely work with other business departments to identify, evaluate and avoid various financial risks. The Board established risk management policies in writing which include specific risk exposures such as exchange rate risk, interest rate risks, credit risk, risk of derivative and non-derivative instruments. In addition, internal audit department is also responsible for independent review of risk management and control environment.

B. Credit risk

(A) Source and definition of credit risk

Credit risk of the Company is the risk of financial loss if a client or counterparty fails to meet its contractual obligations. Credit risk arises from both on-balance sheet items and off-balance sheet items. On-balance sheet items include mainly bill discounted and loans and credit card business, due from and call loans to other banks, debt instruments and derivatives, etc. Off-balance sheet items mainly include guarantees, bank acceptances, letters of credit and loan commitments.

(B) Credit risk management policies

To ensure credit risk is within tolerable extent, the Company requires detailed analysis of products and businesses, including all transactions in banking book and trading book and on and off balance sheet, to identify existing and potential credit risk. Related credit risk is examined according to relevant operational rules before new products and businesses are released.

The "Credit policy" is the highest framework of credit risk management of the Company. It, along with a number of operational policies and rules, constitutes the Company's strategy towards credit risk. The Credit policy clearly sets out relevant regulations and internal credit approving rules in granting credits. It also sets out principles regarding delegation of authorities, credit limits and related parties. The objective of credit is to enhance the business of the Company, to enable functioning of management and monitoring of credit, to ensure regulations are followed and to maintain asset quality.

In addition, assessment of asset quality and loss provision is performed according to relevant risk management rules as well as regulations of local financial supervisory bodies.

Procedures and methods used in credit risk management for the core businesses of the Company are as follows:

a. Credit business (including loan commitment and guarantees)

Credit asset classification and credit quality rating are set out below:

(a) Credit assets classification

Credit assets are classified into five types. Other than normal credit assets shall be classified as Category One, the remaining non-performing loans are assessed based on the collateral provided and the time period of overdue payment as follows: Category Two for assets requiring special mention. Category Three for assets deemed recoverable. Category Four for assets that are doubtful. Category Five for assets that are not recoverable. The company has established its policies governing the procedures to evaluate assets and deal with non-performing and non-accrual loans.

(b) Credit assets quality rating

In response to the characteristics and scale of business, the Company sets up credit quality rating for risk management purposes (such as implementing internal evaluation model of credit risk, setting up credit rating table or other relevant regulations).

For institutional banking customers, the Company has developed an internal credit assessment process to evaluate large enterprises' default

risk. Ratings of customers are evaluated at least once year. In order to ensure the design, process and estimate of relevant risk components of credit rating system are reasonable, the Company verifies and performs back test on the model with customers actual default situations annually. This enables the results to be close to actual default situation.

For small and medium enterprises, the internal credit rating systems have not been developed and the credit assessment process is different by whether it is a project loan or not. Client are categorized, rated and granted credits according to project's rules. In non-project loans, the Company uses its credit policy and internal credit approving rules in granting credits.

Except for micro credit loans that are evaluated with an internal credit model, other consumer banking customers are assessed through individual reviews.

b. Due from and call loans to other banks

The Company evaluates credit conditions of counterparties before proceeding with transactions, and sets up different limits according to credit ratings by reference to credit information from domestic and foreign credit rating agencies.

c. Debt instruments and derivatives

The Company identifies credit risk and manages credit risk of debt instruments according to credit ratings of debt instruments from external agencies, credit quality of bonds, geographic conditions and counterparty risks.

Counterparties of derivative transactions are mostly financial institutions which receive above investment grade ratings. Credit risk is managed through counterparty limits (including call loan limits). Counterparties which are without credit ratings or are rated below investment grade are subject to individual reviews. Non-financial institutions customers' counterparty risk exposure is managed by derivative instrument risk limits and conditions approved through general credit sanction procedures.

(C) Hedging and mitigation of credit risk

a. Collateral

The Company has put in place policies to determine the eligibility of collateral for credit risk mitigation. Amongst those, requesting borrowers to provide collateral is one of the most usual means. The Company has specific criteria for acceptable collateral and collateral valuation, management and disposing procedures regarding the collateral valuation management, collateral assessment for credit facility in order to protect the credit right. Besides, protection of creditor's right, collateral terms and offsetting terms are all addressed in the credit extension contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, or various types of deposits can be used to offset its liabilities to mitigate credit risks.

Collateral for other non-credit extension business depends on the nature of financial asset. Only the asset-backed securities and other similar financial instruments use a pool of financial assets as the collateral.

b. Credit risk limit and credit risk concentration control

The Company follows the applicable laws and regulations with regard to the

limits on large exposures to the same entity or the same affiliated group and reports to Credit Risk Committee on this monthly. In addition, in order to control concentration risk of various assets, limits are established based on the major industry and country groups and regularly monitored in respect of credit assets exposures and reports to Credit Risk Committee monthly.

c. Master netting arrangement

The transactions of the Company are usually gross-settled. However, The Company enters into master netting arrangements with counterparties where it is appropriate and feasible to do so to mitigate counterparty risk. The credit risk is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis.

(D) Maximum exposure to credit risk

Without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk of on-balance sheet financial assets is equal to their carrying values. Refer to Note 9(2) for the maximum exposures of financial instruments with off-balance sheet credit risk.

Based on the Company's assessment, the credit risk exposure of off-balance sheet item can be controlled and minimized because the Company adopts stricter process of credit evaluation and reviews it on a regular basis.

The description of collateral for each class of financial asset is set out below:

- a. Due from Central Bank and call loans to other banks, government bonds, treasury bills and corporate bonds: Collateral is generally not sought for these assets.
- b. Derivatives: The Company maintains collateral agreements and enters into master netting agreements with most of the counterparties for derivative transactions.
- c. Receivables, bills discounted and loans and loan commitments:

(a) Mortgage loans

Residential mortgage exposures are generally fully secured by residential properties. The collaterals are classified into three categories by its location. The Company has set up standard loan-to-value (LTV) ratio and lending limits according to loan purpose, collaterals' type and location and borrower's payment capability, under the rulings of Central Bank of the Republic of China (Taiwan).

(b) Auto loans

The collaterals are classified into two categories according to the vehicle's condition (brand new or used). The Company has set up standard LTV ratio and lending limits according to loan purpose, borrower's payment capability and borrower's credit ratings within the Company.

(c) Institutional banking

Collateral, as an asset or claim of right, is a kind of tool for credit risk mitigation. Although the collateral is a secondary recourse to the borrower, it cannot avoid or compensate the reputation losses from specific counterparties or specific types of credit default. The Company has put in place policies to determine the eligibility of collateral for credit risk mitigation, with a LTV ratio from 40% ~ 90%, taking into consideration factors such as property type, liquidity, marketability and regulations. The policy also governs the

regular revaluation of all collaterals to reflect the current market value. The maximum LTV ratio is required to be approved by the Board.

(E) Credit risk concentration

The credit risks are deemed significantly concentrated when the financial instrument transactions significantly concentrate on a single person, or when there are multiple trading counterparties engaging in similar business activities with similar economic characteristics making the effects on their abilities of fulfilling the contractual obligation due to economy or other forces similar.

The credit risks of the Company concentrate on accounts on and off balance sheets that occurs through obligation fulfilling or implementation of transactions (either product or service), or through trans-type exposure portfolio, including loans, due from and call loans to other banks, securities investment, receivables and derivatives. The Company does not significantly carry out transactions with single client or single counterparty, and the credit risk concentration by industry, geography and type of collateral are shown as follows:

a. By Industry

| Industry | December 31, 2016 | | December 31, 2015 | |
|--------------------------|-----------------------|---------------|-----------------------|---------------|
| | Amount | % | Amount | % |
| Private owned businesses | \$ 137,528,623 | 58.94 | \$ 148,894,889 | 63.28 |
| Individuals | 94,375,958 | 40.45 | 85,542,351 | 36.36 |
| Financial institutions | 1,434,769 | 0.61 | 850,527 | 0.36 |
| Others | 20 | - | 35 | - |
| Total | <u>\$ 233,339,370</u> | <u>100.00</u> | <u>\$ 235,287,802</u> | <u>100.00</u> |

Note: Credit exposures include bills discounted and loans (including non-performing loans), guarantees, clean bills purchased, factoring receivable and acceptances receivable.

b. By Geography

Major operations of the Company reside within Taiwan. There is no significant credit risk concentration by geography.

c. By type of collaterals

| Collateral | December 31, 2016 | | December 31, 2015 | |
|------------------------|-----------------------|---------------|-----------------------|---------------|
| | Amount | % | Amount | % |
| Unsecured | \$ 110,151,125 | 47.21 | \$ 123,769,145 | 52.60 |
| Secured | | | | |
| -Financial instruments | 6,386,263 | 2.74 | 6,879,422 | 2.92 |
| -Real estate | 81,121,607 | 34.77 | 72,176,008 | 30.68 |
| -Letter of guarantee | 13,615,188 | 5.83 | 11,670,585 | 4.96 |
| -Other collateral | 22,065,187 | 9.45 | 20,792,642 | 8.84 |
| Total | <u>\$ 233,339,370</u> | <u>100.00</u> | <u>\$ 235,287,802</u> | <u>100.00</u> |

Note: Credit exposures include bills discounted and loans (including non-performing loans), guarantees, clean bills purchased, factoring receivable and acceptances receivable.

(F) Analysis on credit quality and overdue impairment of financial assets held by the Company

Some of the financial assets held by the Company, such as cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, investment in bills and bonds under reverse repurchase agreements, refundable deposits and etc., are with counterparties with good credit quality and can be considered as low credit risk.

Credit quality analysis of financial assets other than those above is shown below:

a. Credit quality analysis on financial assets including bills discounted and loans, receivables and other financial assets

| | Financial assets that are neither past due nor impaired | | | | Financial assets that are past due but not impaired (B) | | Total (A)+(B)+(C) | Recognised impairment of financial assets (D) | | Net (A)+(B)+(C)-(D) |
|--|---|-----------|--------------|-----------|---|---|----------------------|--|-----------|------------------------|
| | Special mentioned | | Subtotal (A) | | Impaired amount (C) | Without individual objective evidence of impairment | | With individual objective evidence of impairment | | |
| | Pass | | | | | | | | | |
| December 31, 2016 | | | | | | | | | | |
| Receivables | | | | | | | | | | |
| - Credit card business | \$ 63,683 | \$ - | \$ 63,683 | \$ 79 | \$ 79 | \$ 743 | \$ 64,505 | \$ 743 | \$ 1,895 | \$ 61,867 |
| - Acceptances receivable | 661,637 | - | 661,637 | - | - | - | 661,637 | - | 4,381 | 657,256 |
| - Factoring receivable | 17,226,139 | - | 17,226,139 | - | - | - | 17,226,139 | - | 82,317 | 17,143,822 |
| - Receivables on settlement default of derivatives | - | - | - | - | - | 479,666 | 479,666 | 308,135 | - | 171,531 |
| - Interest receivable | 879,303 | - | 879,303 | 7,281 | 7,281 | 12,902 | 899,486 | 12,902 | - | 886,584 |
| - Others | 482 | - | 482 | 151 | 151 | 11,172 | 11,805 | 11,172 | - | 633 |
| Bills discounted and loans | 193,438,076 | 1,176,558 | 194,614,634 | 2,235,396 | 4,054,217 | 4,054,217 | 200,904,247 | 1,348,821 | 1,771,968 | 197,783,458 |
| Other financial assets | 144,817 | - | 144,817 | - | - | - | 144,817 | - | 581 | 144,236 |

| | Financial assets that are neither past due nor impaired | | | | Financial assets that are past due but not impaired (B) | | Total (A)+(B)+(C) | Recognised impairment of financial assets (D) | | Net (A)+(B)+(C)-(D) |
|--|---|---------|--------------|-----------|---|---|----------------------|--|-----------|------------------------|
| | Special mentioned | | Subtotal (A) | | Impaired amount (C) | Without individual objective evidence of impairment | | With individual objective evidence of impairment | | |
| | Pass | | | | | | | | | |
| December 31, 2015 | | | | | | | | | | |
| Receivables | | | | | | | | | | |
| - Credit card business | \$ 67,953 | \$ - | \$ 67,953 | \$ 892 | \$ 892 | \$ 201 | \$ 69,046 | \$ 201 | \$ 1,700 | \$ 67,145 |
| - Acceptances receivable | 374,440 | - | 374,440 | - | - | - | 374,440 | - | 7,727 | 366,713 |
| - Factoring receivable | 12,176,165 | - | 12,176,165 | - | - | 6,893 | 12,183,058 | 5,671 | 85,489 | 12,091,898 |
| - Receivables on settlement default of derivatives | - | - | - | - | - | 88,328 | 88,328 | 88,262 | - | 66 |
| - Interest receivable | 1,138,853 | - | 1,138,853 | 7,468 | 7,468 | 11,594 | 1,157,915 | 11,594 | - | 1,146,321 |
| - Others | 346 | - | 346 | 128 | 128 | 7,685 | 8,159 | 7,685 | - | 474 |
| Bills discounted and loans | 197,458,076 | 252,213 | 197,710,289 | 2,130,320 | 3,911,137 | 3,911,137 | 203,751,746 | 1,421,685 | 1,693,608 | 200,636,453 |
| Other financial assets | 129,024 | - | 129,024 | - | - | - | 129,024 | - | 535 | 128,489 |

- b. In relation to bills discounted and loans, receivables and other financial assets of the Company that were neither past due nor impaired, the credit quality analysis is based on the credit quality rating by client:

| <u>December 31, 2016</u> | <u>Positions that are neither past due nor impaired</u> | | |
|--------------------------|---|--------------------------|-----------------------|
| | <u>Pass</u> | <u>Special mentioned</u> | <u>Total</u> |
| Receivables | \$ 18,831,244 | \$ - | \$ 18,831,244 |
| Consumer Banking | | | |
| -Mortgage loans | 72,323,553 | - | 72,323,553 |
| -Auto loans | 15,903,335 | - | 15,903,335 |
| -Micro credit loans | 2,599,554 | - | 2,599,554 |
| -Others | 297,111 | - | 297,111 |
| Institutional Banking | | | |
| -Secured | 33,844,758 | 171,931 | 34,016,689 |
| -Unsecured | 68,469,765 | 1,004,627 | 69,474,392 |
| Other financial assets | 144,817 | - | 144,817 |
| Total | <u>\$ 212,414,137</u> | <u>\$ 1,176,558</u> | <u>\$ 213,590,695</u> |

| <u>December 31, 2015</u> | <u>Positions that are neither past due nor impaired</u> | | |
|--------------------------|---|--------------------------|-----------------------|
| | <u>Pass</u> | <u>Special mentioned</u> | <u>Total</u> |
| Receivables | \$ 13,757,757 | \$ - | \$ 13,757,757 |
| Consumer Banking | | | |
| -Mortgage loans | 65,340,833 | - | 65,340,833 |
| -Auto loans | 14,130,814 | - | 14,130,814 |
| -Micro credit loans | 2,593,831 | - | 2,593,831 |
| -Others | 357,259 | - | 357,259 |
| Institutional Banking | | | |
| -Secured | 28,567,349 | 102,464 | 28,669,813 |
| -Unsecured | 86,467,990 | 149,749 | 86,617,739 |
| Other financial assets | 129,024 | - | 129,024 |
| Total | <u>\$ 211,344,857</u> | <u>\$ 252,213</u> | <u>\$ 211,597,070</u> |

- c. Credit quality analysis of investment in securities

| <u>December 31, 2016</u> | <u>Financial assets at fair value</u> | <u>Available-for-sale</u> | <u>Total</u> |
|--------------------------|---------------------------------------|---------------------------|----------------------|
| | <u>through profit or loss</u> | <u>financial assets</u> | |
| AA- | \$ 8,416,509 | \$ 12,545,853 | \$ 20,962,362 |
| A | 1,062,041 | - | 1,062,041 |
| BBB+ | 229,919 | - | 229,919 |
| Total | <u>\$ 9,708,469</u> | <u>\$ 12,545,853</u> | <u>\$ 22,254,322</u> |

| <u>December 31, 2015</u> | <u>Financial assets at fair value</u> | <u>Available-for-sale</u> | <u>Total</u> |
|--------------------------|---------------------------------------|---------------------------|----------------------|
| | <u>through profit or loss</u> | <u>financial assets</u> | |
| AA- | \$ 17,722,620 | \$ 18,389,437 | \$ 36,112,057 |
| A | 1,763,071 | - | 1,763,071 |
| BBB+ | 250,009 | - | 250,009 |
| Total | <u>\$ 19,735,700</u> | <u>\$ 18,389,437</u> | <u>\$ 38,125,137</u> |

Note 1: All other investments in securities are not overdue or impaired except for the corporate bond in available-for-sale financial assets. The Company has made sufficient

impairment provision for such impaired corporate bond under available-for-sale financial assets, and therefore no credit quality analysis is available. Please see Note 6(7).

Note 2: The credit rating information is mainly from Standard & Poor's and Taiwan Ratings.

d. Age analysis of financial assets that are past due but not impaired of the Company

The delayed processing of the borrower and other administrative reasons may give rise to an overdue financial asset with no impairment. According to the internal risk management policy of the Company, financial assets overdue for less than 90 days are usually not deemed impaired unless other evidence indicates otherwise.

Age analysis of financial assets that are past due but not impaired of the Company:

| <u>Items</u> | December 31, 2016 | | |
|-----------------------------------|-------------------------------|------------------------|-----------|
| | Overdue for less than 1 month | Overdue for 1~3 months | Total |
| Receivables | | | |
| -Credit card business | \$ 79 | \$ - | 79 |
| -Interest receivable | 5,363 | 1,918 | 7,281 |
| -Others | 95 | 56 | 151 |
| Bills discounted and loans | | | |
| Consumer Banking | | | |
| -Mortgage loans | 1,198,080 | 144,948 | 1,343,028 |
| -Auto loans | 519,198 | 17,166 | 536,364 |
| -Micro credit loans | 211,990 | 34,046 | 246,036 |
| -Others | 8,405 | 1,877 | 10,282 |
| Institutional Banking | | | |
| -Secured | 57,478 | 3,082 | 60,560 |
| -Unsecured | 36,917 | 2,209 | 39,126 |

| <u>Items</u> | December 31, 2015 | | |
|-----------------------------------|-------------------------------|------------------------|-----------|
| | Overdue for less than 1 month | Overdue for 1~3 months | Total |
| Receivables | | | |
| -Credit card business | \$ 464 | \$ 428 | 892 |
| -Interest receivable | 5,455 | 2,013 | 7,468 |
| -Others | 81 | 47 | 128 |
| Bills discounted and loans | | | |
| Consumer Banking | | | |
| -Mortgage loans | 1,004,568 | 188,297 | 1,192,865 |
| -Auto loans | 555,205 | 4,380 | 559,585 |
| -Micro credit loans | 234,052 | 34,636 | 268,688 |
| -Others | 11,522 | 2,909 | 14,431 |
| Institutional Banking | | | |
| -Unsecured | 30,503 | - | 30,503 |
| -Secured | 64,248 | - | 64,248 |

(G) Information disclosed as required by "Regulations Governing the Preparation of Financial Reports by Public Banks":

a. Non-performing loan and overdue receivables asset quality

| Month / Year | December 31, 2016 | | | | | |
|-------------------------------------|---|--------------------------------|--|-----------------------------|-----------------------------|--|
| Business / Items | Amount of non-performing loans (Note 1) | Gross loans | Non-performing loan ratio (%) (Note 2) | Allowance for credit losses | Coverage ratio (%) (Note 3) | |
| Institutional banking | Secured loans | \$ 38,688,738 | 2.33% | \$ 670,353 | 74.40% | |
| | Unsecured loans | 524,001 | 0.77% | 1,181,912 | 225.56% | |
| Consumer banking | Residential mortgage loans (Note 4) | 296,364 | 0.55% | 840,969 | 283.76% | |
| | Cash card services | 517 | 0.27% | 1,998 | 386.46% | |
| | Micro credit loans (Note 5) | 49,592 | 1.71% | 38,790 | 78.22% | |
| | Other (Note 6) | 82,092 | 0.22% | 375,729 | 457.69% | |
| Gross loan business | \$ 1,860,895 | \$ 200,904,247 | 0.93% | \$ 3,120,789 | 167.70% | |
| | Amount of overdue accounts | Balance of accounts receivable | Overdue account ratio (%) | Allowance for credit losses | Coverage ratio | |
| Credit card business | \$ 618 | \$ 64,505 | 0.96% | \$ 2,638 | 426.86% | |
| Factoring without recourse (Note 7) | - | 17,226,139 | - | 82,317 | - | |
| Month / Year | December 31, 2015 | | | | | |
| Business / Items | Amount of non-performing loans (Note 1) | Gross loans | Non-performing loan ratio (%) (Note 2) | Allowance for credit losses | Coverage ratio (%) (Note 3) | |
| Institutional banking | Secured loans | \$ 1,050,809 | 3.92% | \$ 568,552 | 54.11% | |
| | Unsecured loans | 302,262 | 0.33% | 2,062,173 | 682.25% | |
| Consumer banking | Residential mortgage loans (Note 4) | 186,141 | 0.37% | 81,928 | 44.01% | |
| | Cash card services | 555 | 0.25% | 6,116 | 1101.98% | |
| | Micro credit loans (Note 5) | 50,807 | 1.74% | 121,936 | 240.00% | |
| | Others (Note 6) | 58,460 | 0.19% | 170,663 | 291.93% | |
| Gross loan business | \$ 1,655,127 | \$ 203,751,746 | 0.81% | \$ 3,115,293 | 188.22% | |
| | Amount of overdue accounts | Balance of accounts receivable | Overdue account ratio (%) | Allowance for credit losses | Coverage ratio | |
| Credit card business | \$ 201 | \$ 69,046 | 0.29% | \$ 1,901 | 945.77% | |
| Factoring without recourse (Note 7) | - | 12,183,058 | - | 91,160 | - | |

- Note 1: The amount recognised as non-performing loans was in compliance with the “Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The amount included in overdue accounts for credit cards is in compliance with the Explanatory Letter Jin-Guan-Yin (4) No. 0944000378 dated July 6, 2005.
- Note 2: $\text{Non-performing loan ratio} = \text{non-performing loans/gross loans}$. $\text{Overdue account ratio for credit cards} = \text{overdue accounts/balance of accounts receivable}$.
- Note 3: $\text{Coverage ratio for loans} = \text{allowance for credit losses of loans/non-performing loans}$. $\text{Coverage ratio for accounts receivable of credit cards} = \text{allowance for credit losses for accounts receivable of credit cards/overdue accounts}$.
- Note 4: For residential mortgage loans, the borrower provides his/her (or spouses) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.
- Note 5: Micro credit loans referred to those fit the norms of the Explanatory Letter Jin-Guan-Yin (4) No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.
- Note 6: Other consumer finance referred as secured or unsecured consumer loans other than residential mortgage loan, cash card services and micro credit loans, and excluding credit card services.
- Note 7: Pursuant to the Explanatory Letter Jin-Guan-Yin (5) No. 094000494 dated July 19, 2005, the amount of factoring without recourse is recognised as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

- b. Non-performing loans and overdue receivables exempted from reporting to the competent authority are as follows:

| | December 31, 2016 | | December 31, 2015 | |
|--|---|--|---|--|
| | Total amount of non-performing loans exempted from reporting to competent authority | Total amount of overdue receivables exempted from reporting to competent authority | Total amount of non-performing loans exempted from reporting to competent authority | Total amount of overdue receivables exempted from reporting to competent authority |
| Restructured loans in accordance with debt restructuring negotiation exempt from reporting to the competent authority (Note 1) | \$ 54,639 | \$ - | \$ 75,867 | \$ - |
| Restructured loans in accordance with consumer act and rehabilitation program (Note 2) | 213,871 | - | 49,731 | - |
| Total | \$ 268,510 | \$ - | \$ 125,598 | \$ - |

Note 1: Additional disclosure requirement pertaining to the way and information disclosure of the total amount of non-performing loan is in accordance with the Explanatory Letter Jin-Guan-Yin (1) No. 09510001270 dated April 25, 2006.

Note 2: Additional disclosure requirement pertaining to the way and information disclosure of loan in the process of debt liquidation and restructuring program is in accordance with the Explanatory Letter Jin-Guan-Yin (1) No. 09700318940 dated September 15, 2008.

c. Outstanding loan amounts of significant credit risk concentration are as follows:

| December 31, 2016 | | | |
|-------------------|--|----------------------------|-------------------------------|
| Rank (Note 1) | Industry Classification of Group /Enterprise (Note 2) | Total exposure (Note 3) | % of equity for the period |
| 1 | Group A – Real Estate Development | \$ 3,575,225 | 11.22 |
| 2 | Group B – Real Estate Development | 3,342,926 | 10.50 |
| 3 | Company C –Photographic and Optical Equipment Manufacturing | 2,809,440 | 8.82 |
| 4 | Group D – Petroleum Refineries | 2,775,687 | 8.71 |
| 5 | Group E – Other Retail Sale | 2,771,352 | 8.70 |
| 6 | Company F – Semi-Conductor Manufacturing | 2,707,291 | 8.50 |
| 7 | Company G – Real Estate Development | 2,467,840 | 7.75 |
| 8 | Group H – Cable and Other Paid Channels Distribution | 2,302,195 | 7.23 |
| 9 | Group I – Cable and Other Paid Channels Distribution | 2,275,848 | 7.15 |
| 10 | Group J – Other Retail Sale | 2,072,941 | 6.51 |

| December 31, 2015 | | | |
|-------------------|--|----------------------------|-------------------------------|
| Rank (Note 1) | Industry Classification of Group /Enterprise (Note 2) | Total exposure (Note 3) | % of equity for the period |
| 1 | Group A – Semi-Conductor Manufacturing | \$ 6,300,857 | 19.47 |
| 2 | Company B – Commodity wholesalers and Retailers | 4,409,426 | 13.62 |
| 3 | Group C – Real Estate Development | 4,178,765 | 12.91 |
| 4 | Company D – Semi-Conductor Manufacturing | 4,160,826 | 12.86 |
| 5 | Group E – Petroleum Refineries | 3,645,020 | 11.26 |
| 6 | Group F – Real Estate Development | 3,026,980 | 9.35 |
| 7 | Group G – Cable and Other Paid Channels Distribution | 2,657,813 | 8.21 |
| 8 | Group H – Real Estate Development | 2,632,840 | 8.13 |
| 9 | Group I – Cable and Other Paid Channels Distribution | 2,300,892 | 7.11 |
| 10 | Group J – Other Retail Sale | 2,299,158 | 7.10 |

Note 1: Ranking the top ten enterprise groups other than government and government sponsored enterprises according to their total amounts of outstanding loans. Industry type should be filled in accordance with “Standard Industrial Classification System” of Directorate-General of Budget, Accounting and Statistics.

Note 2: Groups are those who met the definition of Article 6 of “Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.”

Note 3: Total amounts of credit extensions were various loans (including import bills negotiations, export bills negotiations, bills discounted, overdrafts, short-term loans, short-term loans secured, account receivable financing, mid-term loans, mid-term loan secured, long-term loans, long-term loans secured, and overdue loans), Clean bills purchased, factoring without recourse, acceptances receivable, and guarantees.

Note 4: The FSC approved the Company to meet restrictions of Article 33-3 of the Banking Act in 5 years for those credit assets assumed from DBS Bank Ltd, Taipei Branch and exceeding the restriction. These credit assets have been drawdown or contracts are signed even though drawdowns have not been made.

C. Liquidity risk

(A) Source and definition of liquidity risk

Liquidity risk is the risk induced by a bank not being able to obtain funding with reasonable cost to fulfill its obligation for contracts or liabilities falling due. Liquidity risk may be from withdrawals of deposits, repayments of loans, commitments to extend loans to our customers and other operating activities to induce capital needs. The Company's objective to manage liquidity risk is to ensure it can maintain its ability to obtain external funds in a fixed period of time under normal market pressure and appropriate conditions.

(B) Risk measurement principle

a. Risk preference

Maximum cumulative cash outflow (MCO Measure) is the primary tool the Company uses to manage liquidity risk. Maximum cumulative cash outflow predicts the Company's funding ability in the survival period when cash flow is dry under various circumstances in the future, and so the Company's ability of funding supply to balance it at any time. If the Company's counterbalancing capacity exceeds the liquidity risk exposure of all contracts of the survival period of time as defined, then liquidity is sufficient. However, if the counterbalancing capacity cannot cover requests of liquidity risk exposure, liquidity is insufficient.

b. Risk control

Monitoring major liquidity index (ex: Loan to deposit ratio, currency swap ratio, loan commitment ratio, mid and long-term loan ratio, concentration of deposits and limit of due from other banks) and analysis of balance sheet to supplement maximum cumulative cash outflow helps the management to understand balance sheet structure and make better decisions.

(C) Liquidity risk management policy

The Board reviews core inputs and also delegates "Market and Liquidity Risk Committee" to review assumption of maximum cumulative cash outflow (except core assumption), including circumstance assumptions, survival period and lowest level of liquidity assets under each condition assumption and limits of risk controls and etc.

The Company always keeps sufficient liquidity cash reserve and hold bonds of highest grade and best liquidity.

(D) Maturity analysis for financial assets and non-derivative financial liabilities

a. Financial assets held for liquidity risk management

In order to fulfill the payment obligation and potential emergent fund demand in the market, as well as manage the liquidity risk at the same time, sound earning assets with high liquidity were held by the Company, including cash and cash equivalents, due from Central Bank and call loans to other banks, bills discounted and loans, available-for-sale financial assets, and other financial assets.

| | (Expressed in Thousands of New Taiwan Dollars) | | | | | |
|---|--|---------------|---------------|-----------------|----------------|----------------|
| | 0~30 days | 31~90 days | 91~180 days | 181 days~1 year | over 1 year | Total |
| December 31, 2016 | | | | | | |
| Cash and cash equivalents | \$ 3,585,128 | \$ 923,793 | \$ 3,025,421 | \$ - | \$ - | \$ 7,534,342 |
| Due from Central Bank and call loans to other banks | 44,302,756 | 8,475,875 | - | - | - | 52,778,631 |
| Financial assets at fair value through profit or loss | - | 430,181 | - | 553,917 | 8,724,371 | 9,708,469 |
| Investment in bills and bonds under reverse repurchase agreements | 282,870 | - | - | - | - | 282,870 |
| Receivables | 6,599,051 | 8,964,591 | 3,659,134 | 88,742 | 1,051,656 | 20,363,174 |
| Bills discounted and loans | 32,965,586 | 28,377,367 | 12,841,643 | 8,132,564 | 118,587,087 | 200,904,247 |
| Available-for-sale financial assets | 14,449,480 | 7,802,654 | 7,500,000 | 12,616,413 | 15,997,905 | 58,366,452 |
| Other financial assets | 144,817 | - | - | - | - | 144,817 |
| Total | \$ 102,329,688 | \$ 54,974,461 | \$ 27,026,198 | \$ 21,391,636 | \$ 144,361,019 | \$ 350,083,002 |
| December 31, 2015 | | | | | | |
| Cash and cash equivalents | \$ 6,358,818 | \$ 1,499,669 | \$ 1,749,614 | \$ 1,399,691 | \$ - | \$ 11,007,792 |
| Due from Central Bank and call loans to other banks | 18,130,266 | - | 2,749,393 | - | - | 20,879,659 |
| Financial assets at fair value through profit or loss | - | - | 150,483 | 2,418,604 | 17,166,613 | 19,735,700 |
| Receivables | 571,913 | 2,679,226 | 9,528,836 | 171,737 | 1,220,380 | 14,172,092 |
| Bills discounted and loans | 32,548,398 | 33,564,106 | 19,804,210 | 15,003,371 | 102,831,661 | 203,751,746 |
| Available-for-sale financial assets | 12,865,679 | 9,337,128 | 7,500,000 | 24,008,040 | 28,496,505 | 82,207,352 |
| Other financial assets | 129,024 | - | - | - | - | 129,024 |
| Total | \$ 70,604,098 | \$ 47,080,129 | \$ 41,482,536 | \$ 43,001,443 | \$ 149,715,159 | \$ 351,883,365 |

b. Maturity analysis on non-derivative financial liabilities

The following table illustrates the analysis made on cash outflow of non-derivative financial liabilities of the Company by the remaining maturity from the balance sheet date to the contract expiration date.

| | (Expressed in Thousands of New Taiwan Dollars) | | | | | Total |
|--|--|---------------|---------------|-----------------|---------------|----------------|
| | 0~30 days | 31~90 days | 91~180 days | 181 days~1 year | over 1 year | |
| December 31, 2016 | | | | | | |
| Due to Central Bank and other banks | \$ 9,867,934 | \$ 2,060,953 | \$ 175,297 | \$ 325,258 | \$ - | \$ 12,429,442 |
| Financial liabilities at fair value through profit or loss | 284,344 | - | - | - | 1,864,719 | 2,149,063 |
| Investment in bills and bonds under repurchase agreements | 202,811 | - | - | - | - | 202,811 |
| Payables | 1,555,467 | 1,418,271 | 636,964 | 82,720 | 136,400 | 3,829,822 |
| Deposits and remittances | 127,328,772 | 46,769,044 | 46,387,363 | 74,866,112 | 917,011 | 296,268,302 |
| Other financial liabilities | 176,656 | 337,037 | 992,781 | 248,455 | 527,000 | 2,281,929 |
| Total | \$ 139,415,984 | \$ 50,585,305 | \$ 48,192,405 | \$ 75,522,545 | \$ 3,445,130 | \$ 317,161,369 |
| December 31, 2015 | | | | | | |
| Due to Central Bank and other banks | \$ 24,539,274 | \$ 22,015,430 | \$ 179,320 | \$ 329,281 | \$ - | \$ 47,063,305 |
| Financial liabilities at fair value through profit or loss | 149,710 | - | - | - | 1,855,455 | 2,005,165 |
| Payables | 643,060 | 704,351 | 520,173 | 84,291 | 6,769,238 | 8,721,113 |
| Deposits and remittances | 104,631,710 | 43,688,160 | 43,211,546 | 71,255,017 | 753,370 | 263,539,803 |
| Other financial liabilities | 933,744 | 484,329 | 391,125 | 56,455 | 920,121 | 2,785,774 |
| Total | \$ 130,897,498 | \$ 66,892,270 | \$ 44,302,164 | \$ 71,725,044 | \$ 10,298,184 | \$ 324,115,160 |

(E) Maturity analysis on derivative financial assets and liabilities

a. Derivatives of the Company settled on a net basis include:

- (a) Foreign exchange derivatives: Non-delivery FX forwards, foreign exchange options and cross currency swap contracts;
- (b) Interest rate derivatives: interest rate swaps contract settled by net cash flow and other interest rate contract; and
- (c) Commodity and equity derivatives: commodity options, commodity swap and equity swap.

b. Derivatives of the Company settled on a gross basis include:

- (a) Foreign exchange derivatives: foreign exchange swaps, foreign exchange options and cross currency swap contracts; and
- (b) Interest rate derivatives: other interest rate contract.

The table below shows the remaining periods of derivative financial instruments from balance sheet date to the maturity date. According to the assessment, the maturities on the contract are the most fundamental element to understand all the derivatives on the balance sheet. Amounts shown in the table are based on contractual cash flows; therefore, certain disclosed amounts may not be consistent with the corresponding accounts on the balance sheet. Maturity analysis on derivative financial assets and liabilities is as follows:

(Expressed in Millions of New Taiwan Dollars)

| | December 31, 2016 | | | | | Total |
|--|-------------------|--------------|-------------|-----------------|-------------|--------------|
| | 0~30 days | 31~90 days | 91~180 days | 181 days~1 year | Over 1 year | |
| Derivative financial assets and liabilities at fair value through profit or loss | | | | | | |
| Foreign exchange derivatives | | | | | | |
| – Cash outflow | (\$ 183,717) | (\$ 158,048) | (\$ 68,182) | (\$ 24,391) | (\$ 1,588) | (\$ 435,926) |
| – Cash inflow | 183,806 | 158,537 | 67,724 | 24,378 | 1,611 | 436,056 |
| Interest rate derivatives | | | | | | |
| – Cash outflow | (138) | (10,170) | (4,368) | (6,545) | (21,857) | (43,078) |
| – Cash inflow | 143 | 9,945 | 4,291 | 6,585 | 21,921 | 42,885 |
| Commodity derivatives | | | | | | |
| – Cash outflow | (20) | - | - | - | - | (20) |
| – Cash inflow | 20 | - | - | - | - | 20 |
| Equity derivatives | | | | | | |
| – Cash outflow | - | (31) | - | (2) | - | (33) |
| – Cash inflow | - | 31 | - | 2 | - | 33 |
| Subtotal cash outflow | (183,875) | (168,249) | (72,550) | (30,938) | (23,445) | (479,057) |
| Subtotal cash inflow | 183,969 | 168,513 | 72,015 | 30,965 | 23,532 | 478,994 |
| Total | \$ 94 | \$ 264 | \$ 535 | \$ 27 | \$ 87 | \$ 63 |

| | December 31, 2015 | | | | | Total |
|--|-------------------|-------------|-------------|-----------------|-------------|--------------|
| | 0~30 days | 31~90 days | 91~180 days | 181 days~1 year | Over 1 year | |
| Derivative financial assets and liabilities at fair value through profit or loss | | | | | | |
| Foreign exchange derivatives | | | | | | |
| – Cash outflow | (\$ 123,235) | (\$ 80,189) | (\$ 44,885) | (\$ 18,369) | (\$ 996) | (\$ 267,674) |
| – Cash inflow | 123,311 | 80,479 | 45,070 | 18,268 | 992 | 268,120 |
| Interest rate derivatives | | | | | | |
| – Cash outflow | (155) | (246) | (4,311) | (7,313) | (18,538) | (30,563) |
| – Cash inflow | 156 | 257 | 4,301 | 7,562 | 18,654 | 30,930 |
| Commodity derivatives | | | | | | |
| – Cash outflow | (40) | (57) | (54) | (109) | (18) | (278) |
| – Cash inflow | 40 | 57 | 54 | 109 | 18 | 278 |
| Subtotal cash outflow | (123,430) | (80,492) | (49,250) | (25,791) | (19,552) | (298,515) |
| Subtotal cash inflow | 123,507 | 80,793 | 49,425 | 25,939 | 19,664 | 299,328 |
| Total | \$ 77 | \$ 301 | \$ 175 | \$ 148 | \$ 112 | \$ 813 |

(F) Maturity analysis for off balance sheet items

The table below shows the remaining periods from balance sheet date to contract expiring dates which demonstrate the maturity analysis of off balance sheet items. The amount of the guarantee and committed credit lines will be allocated to the earliest period when such obligation can be exercised by customers. Amounts shown in the table are based on contractual cash flows; the disclosed amounts might not coincide with relevant items on balance sheet.

| | December 31, 2016 | | | | | | Total |
|----------------------------------|-------------------|--------------|--------------|-----------------|--------------|----|------------|
| | 0-30 days | 31-90 days | 91 -180 days | 181 days-1 year | Over 1 year | | |
| Non-cancellable loan commitments | \$ 1,698,556 | \$ 3,397,112 | \$ 5,095,669 | \$ 9,753,456 | \$ 3,432,344 | \$ | 23,377,137 |
| Unused letters of credit issued | 268,000 | 1,581,436 | 139,686 | 310,539 | 91,658 | | 2,391,319 |
| Guarantees | 3,343,121 | 1,110,557 | 923,037 | 3,023,818 | 6,001,997 | | 14,402,530 |
| Total | \$ 5,309,677 | \$ 6,089,105 | \$ 6,158,392 | \$ 13,087,813 | \$ 9,525,999 | \$ | 40,170,986 |

| | December 31, 2015 | | | | | | Total |
|----------------------------------|-------------------|--------------|--------------|-----------------|---------------|----|------------|
| | 0-30 days | 31-90 days | 91 -180 days | 181 days-1 year | Over 1 year | | |
| Non-cancellable loan commitments | \$ 662,182 | \$ 1,324,362 | \$ 1,986,543 | \$ 3,046,475 | \$ 9,048,597 | \$ | 16,068,159 |
| Unused letters of credit issued | 651,670 | 834,533 | 891,644 | 154,825 | 7,180 | | 2,539,852 |
| Guarantees | 2,241,421 | 2,035,008 | 1,863,592 | 4,717,202 | 7,992,311 | | 18,849,534 |
| Total | \$ 3,555,273 | \$ 4,193,903 | \$ 4,741,779 | \$ 7,918,502 | \$ 17,048,088 | \$ | 37,457,545 |

(G) Maturity analysis for lease contract commitment

Lease commitments of the Company are operating leases.

Operating lease commitment is the total minimum lease payments that the Company should make as a lessee or lessor under an operating lease term which is not cancelable.

There is no capital expenditure of property and equipment contracted for but not yet incurred.

Please refer to the table below for maturity analysis on lease contract commitment of the Company:

| <u>December 31, 2016</u> | <u>Less than 1 year</u> | <u>1~5 years</u> | <u>More than 5 years</u> | <u>Total</u> |
|-------------------------------------|-------------------------|-------------------|--------------------------|-------------------|
| Lease contract commitment | | | | |
| Operating lease expense (lessee) | \$ 281,131 | \$ 601,573 | \$ - | \$ 882,704 |
| Operating lease income (lessor) | 4,361 | 3,955 | - | 8,316 |
| Total | <u>\$ 285,492</u> | <u>\$ 605,528</u> | <u>\$ -</u> | <u>\$ 891,020</u> |

| <u>December 31, 2015</u> | <u>Less than 1 year</u> | <u>1~5 years</u> | <u>More than 5 years</u> | <u>Total</u> |
|-------------------------------------|-------------------------|-------------------|--------------------------|---------------------|
| Lease contract commitment | | | | |
| Operating lease expense (lessee) | \$ 292,286 | \$ 833,207 | \$ 17,586 | \$ 1,143,079 |
| Operating lease income (lessor) | 4,442 | 6,029 | - | 10,471 |
| Total | <u>\$ 296,728</u> | <u>\$ 839,236</u> | <u>\$ 17,586</u> | <u>\$ 1,153,550</u> |

(H) Information disclosure required by “Regulations Governing the Preparation of Financial Reports by Public Banks”

a. Structure analysis of time to maturity (NTD)

(Expressed in thousands of NTD)

December 31, 2016

| | Total | 0~30 days | 11~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
|-------------------------------------|---------------|------------|--------------|---------------|---------------|-------------------|-------------|
| Primary funds inflow upon maturity | 416,521,159 | 83,591,938 | 43,022,361 | 69,951,518 | 63,548,151 | 56,749,524 | 99,657,667 |
| Primary funds outflow upon maturity | 497,871,151 | 49,561,172 | 52,720,822 | 125,401,932 | 80,562,725 | 114,795,379 | 74,829,121 |
| Gap | (81,349,992) | 34,030,766 | (9,698,461) | (55,450,414) | (17,014,574) | (58,045,855) | 24,828,546 |

December 31, 2015

| | Total | 0~30 days | 11~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
|-------------------------------------|---------------|------------|--------------|---------------|---------------|-------------------|-------------|
| Primary funds inflow upon maturity | 332,719,007 | 69,162,229 | 33,006,027 | 38,047,847 | 22,564,247 | 39,564,574 | 130,374,083 |
| Primary funds outflow upon maturity | 356,300,192 | 33,323,649 | 38,482,293 | 68,917,290 | 57,453,596 | 73,118,492 | 85,004,872 |
| Gap | (23,581,185) | 35,838,580 | (5,476,266) | (30,869,443) | (34,889,349) | (33,553,918) | 45,369,211 |

Note: The amounts listed above represent the funds denominated in NT dollars only.

b. Structure analysis of time to maturity (USD)

(Expressed in thousands of USD)

December 31, 2016

| | Total | 0~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
|-------------------------------------|-------------|-------------|------------|-------------|-------------------|-------------|
| Primary funds inflow upon maturity | 9,927,582 | 3,822,452 | 4,023,385 | 1,096,664 | 622,254 | 362,827 |
| Primary funds outflow upon maturity | 10,847,462 | 4,124,327 | 2,741,121 | 1,770,985 | 1,205,677 | 1,005,352 |
| Gap | (919,880) | (301,875) | 1,282,264 | (674,321) | (583,423) | (642,525) |

December 31, 2015

| | Total | 0~30 days | 31~90 days | 91~180 days | 181 days ~ 1 year | Over 1 year |
|-------------------------------------|---------------|-------------|------------|-------------|-------------------|---------------|
| Primary funds inflow upon maturity | 7,408,065 | 2,606,773 | 2,271,002 | 1,255,227 | 565,851 | 709,212 |
| Primary funds outflow upon maturity | 9,975,169 | 3,339,442 | 2,116,246 | 813,427 | 1,015,789 | 2,690,265 |
| Gap | (2,567,104) | (732,669) | 154,756 | 441,800 | (449,938) | (1,981,053) |

Note: The amounts listed above represent the funds denominated in US dollars only.

D. Market risk

(A) Source and definition of market risk

Market risk refers to the changes in profit and loss on and off the balance sheet as a result of change in market price, such as interest rate, exchange rate, equity securities, commodity prices, and in correlation and intrinsic volatility among them. Market risk position is categorized into trading book and banking book. Trading book refers to management of positions based on trading spread for profit making, support clients' investment and hedging. It is revaluated daily and allocated market risk capital. Others which are held to maturity and hedged are not included in trading book are in banking book. Trading book of the Company mainly invests in interest rate, exchange rate and derivatives, with no trading position in equity securities and commodity price instruments.

(B) Measurement of market risk in trading book

- a. Risk preference limits: Including tail risk limit and stress test limit.
- b. Risk control limit
 - i. Interest rate sensitivity ("PV01"): Changes in profit and loss by one basis point change in interest rate.
 - ii. FX Delta: Change in profit and loss by one unit change in foreign exchange rate.
 - iii. Credit spread limit: Change in profit and loss by one basis point change in credit spread.
 - iv. Default risk limit: Change in profit and loss before and after default. Default risk generally is positive and is income after default for buyers. It is compensation for sellers if it is negative.
 - v. Grid: Change in profit and loss when exchange rate, interest rate or volatility changes.
- c. Spot loss limit: Market risk stop loss limit based on actual loss.

(C) Measurement of market risk in banking book

Interest rate risk in the Company's banking book includes interest rate risk on and off balance sheet. Identification and measurement of interest rate risk in banking book include:

- a. Repricing risk: Caused by different maturity (fixed rate) and pricing date (floating rate) of positions on and off balance sheet.
- b. Yield curve risk: Change in slope and shape of yield curve.
- c. Interest rate basis risk: Due to inconsistent changes in repricing of different products which makes income different from payment of similar pricing periods.
- d. Intrinsic option risk: Sourced from options hidden on and off balance sheet, including rights of early withdraw of deposits.

In conclusion, interest rate risk measurement indices are listed below:

- a. Interest rate sensitivity ("PV01") is the measurement tool of risk in price volatility. It can quantitatively analyze interest gap sensitivity of a one basis point change in interest rate. PV01 is used for risk grid measure of the following risk types:
 - i. Repricing risk: Cumulative PV01 as measurement of parallel moving of yield curve.
 - ii. Yield curve risk: PV01 of difference periods can be used to measure yield curve risk

when yield curve moving is not parallel.

- iii. Interest rate basis risk: PV01 is used when spread between prescribed interest rate of products and market interest rate change.
- b. ES (Expected Shortfall): is used to measure interest risk of accounts on balance sheet and as basis for assessment of internal risk capital.

(D) Market risk management framework and policy

Market risk management policy has been approved by the Board. The policy will be reviewed when the effectiveness and completeness of the policy are affected by new changes or development. All policies are reviewed at least annually. The Board delegates control over limit, monitor, and approval of daily transactions to Market and Liquidity Risk Committee. Changes in various risks and settlement of limit breaking events are required to be reported to the Board.

The objective of Market and Liquidity Risk Committee is to monitor and review market risk management and organization structure, including structure, policy efficiency, personnel, procedures, models, information, methodology and systems in relation to market risk, to review and assess positions involved in market risk and significant transactions and issues affecting profit and loss. The Committee comprises the general manager and representatives from Risk Management, Global Transaction Services and Finance.

(Blank)

(E) Sensitivity analysis

a. Analysis of changes in profit and loss:

| | | (In millions of NTD) | |
|--------------------|--|----------------------------|-------------------|
| December 31, 2016 | USD:TWD=32.2175 | Effects on Profit and loss | Effects on Equity |
| Risk Type | Changes | | |
| Interest rate risk | Main interest rates increase by 0.25% | (95.19) | 9.29 |
| Interest rate risk | Main interest rates decrease by 0.25% | 95.19 (| 9.29) |
| Exchange rate risk | USD appreciates by 3% against NTD, JPY, RMB and other currencies | 18.06 | - |
| Exchange rate risk | USD depreciates by 3% against NTD, JPY, RMB and other currencies | (18.06) | - |

| | | (In millions of NTD) | |
|--------------------|--|----------------------------|-------------------|
| December 31, 2015 | USD:TWD=32.8395 | Effects on Profit and loss | Effects on Equity |
| Risk Type | Changes | | |
| Interest rate risk | Main interest rates increase by 0.25% | (104.26) | 26.72) |
| Interest rate risk | Main interest rates decrease by 0.25% | 104.26 | 26.72 |
| Exchange rate risk | USD appreciates by 3% against NTD, JPY, RMB and other currencies | 15.48 | - |
| Exchange rate risk | USD depreciates by 3% against NTD, JPY, RMB and other currencies | (15.48) | - |

(F) Information of concentration of exchange rate risk

The table below represents the financial assets and liabilities in foreign currency of the Company as of December 31, 2016 and 2015 by currency and shown in book value.

| | | December 31, 2016 | | December 31, 2015 | | |
|------------------------------|----|-------------------------------------|------------------|-------------------------------------|------------------|------------------------------------|
| | | In thousands of foreign currency | Exchange rate | In thousands of foreign currency | Exchange rate | Amount (in thousands of NTD) |
| <u>Financial assets</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | \$ | 2,287,883 | 32.22 | 2,872,331 | 32.84 | \$ 94,325,929 |
| CNY | | 903,671 | 4.64 | 2,212,155 | 5.06 | 11,186,986 |
| EUR | | 79,881 | 33.88 | 835,363 | 5.00 | 4,175,892 |
| CNH | | 346,354 | 4.62 | 3,979,907 | 0.27 | 1,085,488 |
| JPY | | 5,396,034 | 0.28 | 32,751 | 35.90 | 1,175,765 |
| <u>Financial liabilities</u> | | | | | | |
| <u>Monetary items</u> | | | | | | |
| USD | \$ | 3,920,749 | 32.22 | 3,574,780 | 32.84 | \$ 117,393,992 |
| CNY | | 1,419,336 | 4.64 | 2,236,200 | 5.06 | 11,308,587 |
| AUD | | 243,044 | 23.27 | 1,554,361 | 5.00 | 7,770,088 |
| CNH | | 568,157 | 4.62 | 244,334 | 23.98 | 5,859,386 |
| JPY | | 5,776,170 | 0.28 | 4,744,802 | 0.27 | 1,294,107 |

Note: The above foreign currencies (including forward exchange contracts) are the top five in position expressed into the same currency.

(G) Information disclosure required by “Regulations Governing the Preparation of Financial Report by Public Banks”

a. Analysis on interest rate sensitive assets and liabilities (NTD)

(Expressed in thousands of New Taiwan Dollars, %)

December 31, 2016

| Items | 1~90 days | 91~180 days | 181 days ~1 year | Over 1 year | Total |
|--|----------------|---------------|------------------|---------------|----------------|
| Interest-rate-sensitive assets | \$ 199,990,905 | \$ 8,294,746 | \$ 14,015,758 | \$ 43,381,168 | \$ 265,682,577 |
| Interest-rate-sensitive liabilities | 86,017,225 | 40,348,500 | 62,373,827 | 1,129,437 | 189,868,989 |
| Interest-rate-sensitive gap | 113,973,680 | (32,053,754) | (48,358,069) | 42,251,731 | 75,813,588 |
| Total equity | | | | | 30,208,862 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 139.93% |
| Ratio of interest-rate-sensitive gap to equity (%) | | | | | 250.96% |

December 31, 2015

| Items | 1~90 days | 91~180 days | 181 days ~1 year | Over 1 year | Total |
|--|---------------|---------------|------------------|----------------|----------------|
| Interest-rate-sensitive assets | \$ 82,053,151 | \$ 16,931,881 | \$ 35,543,465 | \$ 124,309,663 | \$ 258,838,160 |
| Interest-rate-sensitive liabilities | 59,858,866 | 35,337,578 | 62,181,781 | 23,403,783 | 180,782,008 |
| Interest-rate-sensitive gap | 22,194,285 | (18,405,697) | (26,638,316) | 100,905,880 | 78,056,152 |
| Total equity | | | | | 30,614,585 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | 143.18% |
| Ratio of interest-rate-sensitive gap to equity (%) | | | | | 254.96% |

Note 1: The amounts listed above represent the items denominated in New Taiwan Dollars (i.e., excluding foreign currency) for all domestic branches, of the Company, excluding contingent assets and contingent liabilities.

Note 2: Interest-rate-sensitive assets and liabilities are those interest earned assets and interest bearing liabilities, revenues and costs which are sensitive to changes in interest rates.

Note 3: Interest-rate-sensitive 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 (refer to NTD denominated interest-rate-sensitive assets and interest-rate-sensitive liabilities)

b. Analysis on interest rate sensitive assets and liabilities (USD)

(Expressed in thousands of USD, %)

| Items | December 31, 2016 | | | | | Total |
|--|-------------------|-------------|------------------|-------------|----|------------|
| | 1~90 days | 91~180 days | 181 days ~1 year | Over 1 year | | |
| Interest-rate-sensitive assets | \$ 1,333,379 | \$ 135,750 | \$ 14,264 | \$ 58,006 | \$ | 1,541,399 |
| Interest-rate-sensitive liabilities | 2,748,406 | 93,070 | 298,752 | 1,851 | | 3,142,079 |
| Interest-rate-sensitive gap | (1,415,027) | 42,680 | 284,488 | 56,155 | (| 1,600,680) |
| Total equity | | | | | | 51,501 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | | 49.06% |
| Ratio of interest-rate-sensitive gap to equity (%) | | | | | | -3108.06% |

| Items | December 31, 2015 | | | | | Total |
|--|-------------------|-------------|------------------|-------------|----|------------|
| | 1~90 days | 91~180 days | 181 days ~1 year | Over 1 year | | |
| Interest-rate-sensitive assets | \$ 1,034,747 | \$ 228,633 | \$ 129,325 | \$ 191,059 | \$ | 1,583,764 |
| Interest-rate-sensitive liabilities | 2,297,392 | 69,868 | 269,164 | 455,010 | | 3,091,434 |
| Interest-rate-sensitive gap | (1,262,645) | 158,765 | 139,839 | 263,951 | (| 1,507,670) |
| Total equity | | | | | | 47,447 |
| Ratio of interest-rate-sensitive assets to liabilities (%) | | | | | | 51.23% |
| Ratio of interest-rate-sensitive gap to equity (%) | | | | | | -3177.59% |

Note 1: The amounts listed above represent the items denominated in US dollars (i.e., excluding foreign currency) for all domestic branches, of the Company, excluding contingent assets and contingent liabilities.

Note 2: Interest-rate-sensitive assets and liabilities are those interest earned assets and interest bearing liabilities, revenues and costs which are sensitive to changes in interest rates.

Note 3: Interest-rate-sensitive 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 (refer to USD denominated interest-rate-sensitive assets and interest-rate-sensitive liabilities)

(4) Transfer of financial assets

The transferred financial assets are not fully derecognised.

During the Company's daily operating activities, the transferred financial assets that do not meet derecognition conditions are mainly debt instruments with purchase agreements. Since the cash flow of the contract has been transferred and related liabilities of transferred financial assets that will be repurchased at a fixed price in the future have been reflected, the financial assets were not derecognised.

| <u>Financial assets category</u> | <u>December 31, 2016</u> | |
|---|--|---|
| | <u>Carrying amount of transferred financial assets</u> | <u>Carrying amount of related financial liabilities</u> |
| Financial assets at fair value through profit or loss | | |
| Repurchase agreement | \$ 202,358 | \$ 202,811 |

The Company did not have the financial assets which meet the above mentioned criteria and related financial liabilities as of December 31, 2015.

(5) Offsetting financial assets and financial liabilities

There are financial assets and liabilities held by the Company for which net settlement agreements (such as global master repurchase agreement) have been signed with counterparties but do not meet the accounting standards for reporting on a net basis. Such financial assets and liabilities can be offset for settlement at a net balance if both parties opt for a net settlement. Otherwise, the financial assets and liabilities are settled on a gross basis. Where one party defaults, the counterparty can opt for settlement on a net basis.

The offsetting of financial assets and financial liabilities are set as follows:

| December 31, 2016 | | | | | | |
|---|---|---|--|--|--------------------------|------------------------|
| Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements | | | | | | |
| Item | Gross amounts of recognised financial assets (a) | Gross amount set off in the balance sheet (b) | Amounts presented in the balance sheet (c)=(a)-(b) | Amounts not set off in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivatives | \$ 8,303,072 | \$ - | \$ 8,303,072 | \$ 4,989,141 | \$ 811,672 | \$ 2,502,259 |
| Reverse repurchase agreement | \$ 282,870 | \$ - | \$ 282,870 | \$ 282,870 | \$ - | \$ - |
| Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements | | | | | | |
| Item | Gross amounts of recognised financial liabilities (a) | Gross amount set off in the balance sheet (b) | Amounts presented in the balance sheet (c)=(a)-(b) | Amounts not set off in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivatives | \$ 8,628,549 | \$ - | \$ 8,628,549 | \$ 4,989,141 | \$ - | \$ 3,639,408 |
| Repurchase agreement | \$ 202,811 | \$ - | \$ 202,811 | \$ 202,358 | \$ - | \$ 453 |
| December 31, 2015 | | | | | | |
| Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements | | | | | | |
| Item | Gross amounts of recognised financial assets (a) | Gross amount set off in the balance sheet (b) | Amounts presented in the balance sheet (c)=(a)-(b) | Amounts not set off in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments (Note) | Cash collateral received | |
| Derivatives | \$ 10,294,050 | \$ - | \$ 10,294,050 | \$ 2,637,166 | \$ 1,142,849 | \$ 6,514,035 |
| Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements | | | | | | |
| Item | Gross amounts of recognised financial liabilities (a) | Gross amount set off in the balance sheet (b) | Amounts presented in the balance sheet (c)=(a)-(b) | Amounts not set off in the balance sheet (d) | | Net amount (e)=(c)-(d) |
| | | | | Financial instruments (Note) | Cash collateral pledged | |
| Derivatives | \$ 9,977,562 | \$ - | \$ 9,977,562 | \$ 2,637,166 | \$ - | \$ 7,340,396 |

Note: Including master netting arrangements.

(6) Capital management

The Company complies with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” announced by FSC and risk management policies to establish “Rules Governing Capital Adequacy Management” of the Company, in order to maintain the capital adequacy ratio above the lowest level required by law and also elevate efficiency of capital management and resources allocation in consideration of the whole exposure and characteristics of eligible capital.

The objectives and procedures of capital management of the Company:

A. Objectives of capital management

Meeting the minimum regulated capital adequacy ratio is the most basic objective for the eligible capital of the Company. The calculation of eligible capital and capital required by law should be made in compliance with regulations of competent authorities.

B. Capital management principles

The objective of capital management principles of the Company is to be in compliance with capital adequacy ratio agreed by the Board and rules regarding capital adequacy management. The Assets and Liabilities Committee is responsible for capital management of the Company. In addition to assessing the status of internal and external risk indices, trends and objectives, it is also responsible for implementing and monitoring over the assessment of the needs for regulated capital and risk capital.

To ensure capital of the Company is sufficient to absorb risk from operations, credit, market and operational risks are assessed within the scope of capital assessment and management of the assessment of capital needs is conducted in compliance with methodology regulated by FSC. The Company also established sound risk management systems and policies to maintain adequate capital fitting risk characteristics and operating environment of the Company. Systems and policies will be amended in accordance with changes in overall operating strategy, management objectives, and external regulations. Capital adequacy management principles is reviewed and amended at least once a year.

In addition to assessment of changes in capital adequacy under normal operating situations in accordance with operating plans and budget targets, regular stress test is also implemented under relevant regulations of competent authority in order to evaluate whether capital on hand is sufficient to cover potential losses incurred under stress.

Eligible capital of the Company is categorized as Tier 1 capital and Tier 2 capital in compliance with “Regulation Governing the Capital Adequacy and Capital Category of Banks” and ratios of total eligible capital to total risk-weighted assets, including the Common Equity Capital Ratio, Tier 1 Capital Ratio and Capital adequacy ratio, are calculated in compliance with this regulation.

C. Capital adequacy ratio

The following table shows calculations of self-owned capital, risk weighted capital and capital adequacy ratio of the Company. The Company meets all requirements of local competent authorities for the years ended December 31, 2016 and 2015.

(Expressed in Thousands of New Taiwan Dollars, %)

| | | December 31, 2016 | December 31, 2015 | |
|------------------------------------|----------------------------|---|----------------------|-------------|
| Eligible capital | Common Equity | 23,545,024 | 23,570,848 | |
| | Additional Tier 1 Capital | 7,985,504 | 7,987,530 | |
| | Tier 2 Capital | - | 42,364 | |
| | Total Eligible Capital | 31,530,528 | 31,600,742 | |
| Total risk - weighted assets | Credit risk | Standardized Approach | 214,690,538 | 211,577,823 |
| | | Internal Rating Approach | - | - |
| | | Credit Valuation Adjustment | 3,293,348 | 4,778,147 |
| | | Asset securitization | - | - |
| | Operational risk | Basic Indicator Approach | 11,880,350 | 11,326,899 |
| | | Standardized Approach/ Alternative Standardized Approach | - | - |
| | | Advanced Measurement Approach | - | - |
| | Market risk | Standardized Approach | 10,287,939 | 7,972,047 |
| | | Internal Model Approach | - | - |
| | Total risk-weighted assets | | 240,152,175 | 235,654,916 |
| Capital adequacy ratio (%) | | 13.13 | 13.41 | |
| Common Equity Capital Ratio (%) | | 9.80 | 10.00 | |
| Tier 1 Capital Ratio (%) | | 13.13 | 13.39 | |
| Leverage ratio (%) | | 7.98 | 7.69 | |

Note 1: The calculation of eligible capital, total risk-weighted assets and exposure measurement of the table should comply with "Regulation Governing the Capital Adequacy and Capital Category of Banks" and "Calculation method and table of self-owned capital and risk-weighted assets".

Note 2: The following formulas of the table are shown below:

- (1) Eligible capital = Common Equity + Additional Tier 1 Capital + Tier 2 capital
- (2) Total risk-weighted assets = credit risk-weighted assets + (operational risk + market risk) * 12.5
- (3) Capital adequacy ratio = Eligible capital / Total risk-weighted assets
- (4) Common Equity Capital Ratio = Common Equity / Total risk-weighted assets
- (5) Tier 1 Capital Ratio = (Common equity + Additional Tier 1 Capital) / Total risk-weighted assets
- (6) Leverage ratio = Tier 1 capital / Total Exposures

(7) Profitability

| Item | | Expressed in % | |
|------------------------|-------------------|-------------------|-------------------|
| | | December 31, 2016 | December 31, 2015 |
| Return on assets ratio | Before income tax | 0.13 | 0.15 |
| | After income tax | 0.12 | 0.12 |
| Return on equity ratio | Before income tax | 1.44 | 1.85 |
| | After income tax | 1.31 | 1.51 |
| Net income ratio | | 6.45 | 6.27 |

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

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

Note 3: Net income ratio = Income after income tax / net revenues.

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

(8) Merger with DBS Insurance Agency (Taiwan) Ltd

On December 24, 2016, the Company merged with DBS Insurance Agency (Taiwan) Ltd. (hereinafter "DBS Insurance Agency"). Because the Company and DBS Insurance Agency are both 100% controlled subsidiaries of DBS Bank Ltd, in accordance with the IFRS Q&A compilation "Guidelines for IFRS 3 business combinations involving entities under common control" promulgated by the Accounting Research and Development Foundation, and because IFRS 3, 'Business Combinations' does not have clear provisions regulating business combinations between the entities under common control, the merger is subject to regulations as addressed by related interpretations promulgated in the R.O.C.

The merger is an organizational restructure between the entities under common control. In accordance with Accounting Research and Development Foundation's interpretation Ji-Mi-Zi Letter No. (101)301, the comparative financial statements for the year ended December 31, 2015 have been retrospectively restated for the Company as if these entities had always been combined.

The Company issued the cash consideration of \$559,906, based on the net asset value of the dissolving company (DBS Insurance Agency) at the merger effective date, to assume all assets, debts, rights, and obligations of the dissolving company.

When preparing the balance sheets, the Company has adjusted DBS Insurance Agency's equity as "former equity under common control"; while preparing the statements of comprehensive income, the Company has adjusted profits or losses attributable to DBS Insurance Agency before merger as net income attributable to former equity under common control. The following is the reconciliation of affected items of the comparative balance sheets and statements of comprehensive income:

January 1, 2015

| <u>Item</u> | <u>Before restated</u> | <u>Effect of retrospective application for organization restructure</u> | <u>Restated</u> |
|------------------------------------|------------------------|---|-----------------|
| Assets | | | |
| Cash and cash equivalents | \$ 13,720,057 | \$ 30 | \$ 13,720,087 |
| Receivables – net | 14,915,021 | (202,392) | 14,712,629 |
| Intangible assets – net | 117,595 | 31 | 117,626 |
| Other assets – net | 1,792,164 | 2,172 | 1,794,336 |
| Liabilities | | | |
| Payables | \$ 8,830,989 | \$ 10,399 | \$ 8,841,388 |
| Current income tax liabilities | 54,675 | 12,607 | 67,282 |
| Deposits and remittances | 238,046,574 | (526,525) | 237,520,049 |
| Other liabilities | 737,231 | (207) | 737,024 |
| Equity | | | |
| Former equity under common control | - | 303,567 | 303,567 |

December 31, 2015

| <u>Item</u> | <u>Before restated</u> | <u>Effect of retrospective application for organization restructure</u> | <u>Restated</u> |
|------------------------------------|------------------------|---|-----------------|
| Assets | | | |
| Cash and cash equivalents | \$ 11,007,762 | \$ 30 | \$ 11,007,792 |
| Receivables – net | 14,011,948 | (48,185) | 13,963,763 |
| Intangible assets – net | 153,637 | 33 | 153,670 |
| Deferred income tax assets – net | 76,788 | 36 | 76,824 |
| Other assets – net | 7,229,909 | 5,607 | 7,235,516 |
| Liabilities | | | |
| Payables | \$ 8,710,702 | \$ 10,411 | \$ 8,721,113 |
| Current income tax liabilities | - | 23,257 | 23,257 |
| Deposits and remittances | 264,031,642 | (491,839) | 263,539,803 |
| Other liabilities | 826,336 | (207) | 826,129 |
| Equity | | | |
| Former equity under common control | - | 415,899 | 415,899 |

**For the year ended
December 31, 2015**

| <u>Item</u> | <u>Before restated</u> | Effect of retrospective application for organization restructure | <u>Restated</u> |
|--|------------------------|---|-----------------|
| Interest expense | (\$ 2,871,830) | \$ 1,698 | (\$ 2,870,132) |
| Net fee and commission income | 1,224,276 | 175,964 | 1,400,240 |
| Other non-interest income | 47,192 | (533) | 46,659 |
| Employee benefit expenses | (2,953,362) | (17,501) | (2,970,863) |
| Depreciation and amortisation expenses | (239,149) | (13) | (239,162) |
| Other general and administrative expenses | (1,997,831) | (16,974) | (2,014,805) |
| Income tax expense | (66,643) | (30,309) | (96,952) |

13. SUPPLEMENTARY DISCLOSURES

(1) Related information on material transaction items:

- A. Information regarding stock of long-term equity investment for which the purchase or sale amount for the period exceeded NT\$300 million or 10% of the Company's paid-in capital: None.
 - B. Information on the acquisition of real estate for which the purchase amount exceeded NT\$300 million or 10% of the Company's paid-in capital: None.
 - C. Information on the disposal of real estate for which the sale amount exceeded NT\$300 million or 10% of the Company's paid-in capital: None.
 - D. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT\$5 million: None.
 - E. Information regarding receivables from related parties for which the amount exceeded NT\$300 million or 10% of the Company's paid-in capital: None.
 - F. Information on sale of non-performing loans: None.
 - G. Information on and categories of securitized assets which are approved by the authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act: None.
 - H. Business relationship and material transaction between the parent company and subsidiaries: Not applicable.
 - I. Other material transaction items which were significant to the users of the financial reports: None.
- (2) Information regarding loans to others, guarantees for others, securities held at period end, purchasing or selling the same securities over NT \$300 million or 10% of the paid-in capital and derivative transactions of investee companies: Not applicable.
- (3) Supplementary disclosure regarding investee companies and consolidated stocks held: Not applicable.
- (4) Related information on investments in Mainland China: None.

14. SEGMENT INFORMATION

(1) General information – products and services generating income of each reportable segment

The Company has three reportable segments: Institutional banking, consumer banking and others. Main income sources of products and services are as follows:

Institutional banking: general corporate deposits and loans, policy financing, guaranteed acceptance, accounts receivable factoring and financing, small and medium enterprises project loans, money market and financial instruments investment.

Consumer banking: mortgage loans, auto loans, consumer loans, credit business, wealth management, deposits and insurance agency business.

Others: income and expense not attributable to above operating segments and expense from supporting office that cannot be directly amortised are classified as others.

(2) Measurement of segment information

(A) Measurement of profit and loss, asset and liabilities of segments

All principles used to measure profit and loss, assets and liabilities of segments of the Company are consistent with the significant accounting policies detailed in Note 4. The measurement of profit and loss is based on pre-tax profit and loss.

In order to create a fair and reasonable performance measuring program, intra-transactions amongst segments of the Company are deemed as trading with third parties and interest income and expense are calculated based on internal interest rate determined by reference with market condition. Internal income and expense of each segment are offset in external financial statements.

Income and expense are directly classified under segmental profit and loss if attributable to the segment or allocated to each segment based on reasonable standards of calculation if the indirect expense is not able to be directly attributable to the segments. All other unallocated items are included in others.

(B) Recognition element for segments

The Company has specific performance indicators and the Chief Operating Decision-Maker regularly reviews and evaluates performances, through which the Company uses as a reference to determine resource allocation.

(3) Segment profit and loss

| | For the year ended December 31, 2016 | | | |
|---|--------------------------------------|------------------|-------------|--------------|
| | Institutional banking | Consumer banking | Others | Consolidated |
| Net interest income | \$ 2,210,635 | \$ 1,567,126 | (\$ 41,774) | \$ 3,735,987 |
| Net non-interest income (note) | 1,382,969 | 1,360,243 | 60,302 | 2,803,514 |
| Net revenues | 3,593,604 | 2,927,369 | 18,528 | 6,539,501 |
| Bad debts expense and reserve on guarantee liabilities | (15,221) | (882,198) | 24,623 | (872,796) |
| Operating expenses | (2,425,896) | (2,719,149) | (57,913) | (5,202,958) |
| Income before income tax | \$ 1,152,487 | \$ 673,978 | \$ 14,762 | \$ 463,747 |

For the year ended December 31, 2015

| | Institutional banking | Consumer banking | Others | Consolidated |
|---|-----------------------|------------------|------------|--------------|
| Net interest income | \$ 2,285,109 | \$ 1,382,285 | \$ 40,166 | \$ 3,627,228 |
| Net non-interest income (note) | 2,005,638 | 985,552 | 132,284 | 3,123,474 |
| Net revenues | 4,290,747 | 2,367,837 | 92,118 | 6,750,702 |
| Bad debts expense and reserve on guarantee liabilities | (964,595) | (53,821) | 12,486 | (1,005,930) |
| Operating expenses | (2,572,864) | (2,533,297) | (118,669) | (5,224,830) |
| Income before income tax | \$ 753,288 | \$ 219,281 | \$ 14,065 | \$ 519,942 |

Note: Including net fee and commission income, gains or losses on financial assets and financial liabilities at fair value through profit or loss, realised gains or losses on available-for-sale financial assets, foreign exchange gains (losses) and other non-interest income.

(4) Information of revenue by location

The Company's major businesses are all located domestically. Revenues from external clients that were from a single foreign country were not material. Thus, there is no need to disclose information of revenue by location.

(5) Important client information

Not applicable. No one single source of the customers constitutes over 10% of the Company's total revenue.