



E.SUN BANK 5847
www.esunbank.com.tw
<https://newmops.twse.com.tw>
Printing Date : 2017.3.30

ANNUAL REPORT 2016



105 年 年 報



玉山銀行 E.SUN BANK



Pure as Jade, Sturdy as Mountain.

E.SUN Spokesman

Name: Magi Chen

Position: Deputy President

Telephone: +886 2 2175 1313

email: magi@esunbank.com.tw

Deputy Spokesman

Name: Mao-Chin Chen

Position: CEO of Corporate Banking Division

Telephone: +886 2 2175 1313

email: james-0081@esunbank.com.tw

Registered Office and Branches

Name	Address	Telephone	Website
Registered Office	No.115 & 117, Sec.3, Minsheng E. Rd., Songshan District, Taipei, Taiwan	+886 2 2175 1313	www.esunbank.com.tw
Branches	Please refer to the back cover		

Stock Transfer and Service Contact

Name: Stock Service Department, General Affairs Division, E.SUN Bank

Address: No.115, Sec. 3, Minsheng E. Rd., Songshan District Taipei,
Taiwan, R.O.C.

Website: www.esunbank.com.tw

Telephone: +886 2 2719 1313

Rating Agency

Name: Moody's Investors Service Inc.

Address: 7 World Trade Center, 250 Greenwich Street, New York, NY 10007, U.S.A.

Telephone: +1 212 553 0300

Name: Taiwan Ratings Corporation

Address: 49F., Taipei 101 Tower No.7, Sec.5, Xinyi Rd., Taipei, Taiwan R.O.C.

Telephone: +886 2 8722 5800

Auditing Certified Public Accountant

Certified Public Accountant: Yin-Chou Chen, Rui-Chan Huang

Accounting Firm: Deloitte Taiwan

Address: 12F., No.156, Sec.3, Minsheng E. Rd., Taipei, Taiwan, R.O.C.

Website: www.deloitte.com.tw

Telephone: +886 2 2545 9988

The highest peak, the best bank.



E.SUN BANK 25th



CONTENTS

I. Letter to Shareholders	1
II. Company Profile	5
1. Introduction	6
III. Corporate Governance Report	11
1. Organization	12
2. Directors, Independent Directors and Management Team	13
3. Implementation of Corporate Governance	22
IV. Capital Overview	32
1. Shares and Dividends	33
2. Preferred Shares Issuance	34
3. GDR Issuance	34
4. Employee Stock Option and Status of New Shares	34
V. Operational Highlights	35
1. Business Activities	36
2. Business Plan	40
3. Market Analysis	42
4. Financial Products R&D and Business Status	47
5. Human Resource	50
6. Corporate Responsibility and Ethics	52
7. Information of Environmental Expenses	53
8. Employee Relations	54
VI. Financial Information	55
VII. Risk Management	71
VIII. Special Disclosure	83
1. Summary of Affiliated Companies	84
2. Representation of Consolidated Financial Statements of Affiliated Enterprises	86
3. Private Placement Securities in the Most Recent Years	87
4. The Shares in the Company Held or Disposed of by Subsidiaries in the Most Recent Years	87
5. Other Required Supplementary Disclosure	87
Appendix	88
Consolidated Financial Statements and Independent Auditors' Report	88

I. Letter to Shareholders

Dear Shareholders

The year 2016 saw many number of challenges and changes across the world's political and economic landscapes: the U.S. presidential election, the U.K.'s referendum on leaving the European Union, protectionism on the rise, and clashes between forces in favor of and against globalization. All these not only impacted the strategic deployment of countries and their competition and cooperation in regional economies but also brought financial markets more uncertainties. Meanwhile, such pressing issues as fintech, information security, and cross-border control of money laundering put financial institutions to test; they were called upon to prove themselves capable of securing an equilibrium in financial innovation and risk management while staying on the growth track. We are keenly aware that such a time of challenges and changes is no less than a critical juncture for businesses to build on their core value and secure their place in the future.

Since its inception in 1992, E.SUN Bank has overcome many daunting challenges over a quarter century. During this time, we have never strayed away from our vision and beliefs. Named after Taiwan's highest peak Yushan, or Mt. Yu, E.SUN Bank is committed to standing by the principles of integrity and honesty while striving for a fresh, professional brand image, thereby making the best bank in the country.

2016—A Solid Overall Performance

E.SUN Bank delivered further growth across all business lines in 2016. This performance did not go



unnoticed. Three international financial magazines—Asiamoney, The Asset, and The Banker—unanimously rated E.SUN Bank as Taiwan's best bank in recognition of its long-time dedication to sustainable development and sound business.

In terms of financial gauges, net income set another record high of NT\$13.265 billion, or NT\$1.85 per share. The ROE and ROA came in at 11.00% and 0.75% respectively while the capital adequacy ratio, 13.71%. Meanwhile, the Bank was able to keep up its asset quality as well. The NPL ratio of 0.19% was supplemented by a 629.84% loan loss coverage ratio. When it comes to the Bank's credit ratings, Moody's kept intact its long/short-term foreign-currency deposit ratings of A3/P-2 with a stable outlook.

At the end of 2016, E.SUN Bank's total assets amounted to NT\$1.87 trillion; outstanding balance of loans, NT\$1.13 trillion; and outstanding balance of all deposits, NT\$1.56 trillion, including NT\$706.7 billion in demand deposits and NT\$413.5 billion in foreign currency deposits. Net interest income and fee income also grew steadily, by 6.76% to NT\$18.419 billion and by 13.26% to NT\$14.939 billion respectively. Likewise, wealth management and credit card businesses kept up growth momentum. Fee income from wealth

management and credit card services increased by 12.4% and 20.8% to NT\$8.219 billion and NT\$4.244 billion respectively. Separately, the Bank saw its cardholder spending expand by 18.9% to NT\$300.1 billion, recording the highest growth rate among Taiwan's top 10 card issuers for a second straight year. In terms of SME loans, the Bank not only remained the biggest lender among Taiwan's privately run banks but also emerged as a recipient of the SME Credit Guarantee Partner Awards for the 11th consecutive year, a record unparalleled by any other local peer.

Fintech has progressed rapidly. To stay ahead of the game, E.SUN Bank has invested heavily in financial innovation in the form of payment services, smart banking, and channel consolidation so that it can provide customers with personalized services and make digital banking and the good life it brings readily accessible to everyone. In terms of payment banking, the Bank took the lead to introduce E.SUN Wallet, Taiwan's only cellular credit card with both Host Card Emulation (HCE) and QR Code capabilities. When it comes to smart banking, the Bank draws on big data and digital platforms as its core for developing a wider range of Bank 3.0 services: e-Click Loan Application, digital mortgages, online forex services, and digital wealth management. As far as channel consolidation is concerned, we took the lead to combine digital technology and

the arts as we set up digital flagship branches in northern, central, and southern parts of Taiwan to provide customers with O2O financial services that come with a distinctly human touch and integrate the physical and virtual. E.SUN's accomplishments were recognized and received the Digital Champion in Asiapec Award for two consecutive years in Gartner's innovation award.

When it comes to expanding across Asia, E.SUN Bank now operates 24 outlets in eight countries and territories, including the Yangon Branch in Myanmar—the only one established by any Taiwanese bank to date; the Chinese subsidiary—the first instance of any Taiwanese bank branch securing subsidiary status on the mainland; and the Sydney Branch in Australia. All these go a long way toward building a well-rounded financial platform unique to Asia that promises to provide customers with a full spectrum of cross-border services.

Strategies for Future Development

As regional integration and financial technology gain momentum and Asia increasingly asserts itself, competition stands out as an ongoing process across industries, borders, and the physical and the virtual. At such a critical juncture when new business models and new paradigms are taking shape, E.SUN is set to draw on its capacity for conceptualizing

E.SUN Bank's Credit Ratings

Category	Credit Rating Agency	Long-Term Ratings	Short-Term Ratings	Outlook	Effective Date
International Ratings	Moody's	A3	P-2	Stable	2016.12
	S&P	BBB	A-2	Positive	2016.07
Domestic Ratings	Taiwan Ratings	twAA-	twA-1+	Positive	2016.07

innovation and taking action to rise above competition. Of course, equal emphasis will be placed on internal stability and external flexibility as we implement our long-term strategies. In turn, the following strategies have been set for 2017:

1. Draw on technology to develop digital banking: Using technology as an accelerator, we will cultivate more high-caliber people through industry-academia collaboration. Emphasis will also be placed on developing emerging technological tools such as big data analytics as well as smart and blockchain applications in order to help customers enjoy the good life that financial conveniences bring. Meanwhile, we are ready to launch a new core project for crafting our next-generation information system. This will prove essential to enhancing our technology-driven core competitiveness.
2. Transform channels to maximize value: For us, channel transformation remains an ongoing process. We are set to establish a next-generation model of branch services that features a mix of fintech and the arts as well as a systematic optimization of workflow with a view to providing customers with a more refreshing experience in digital banking services. We will also strengthen the expertise and teamwork of our marketing and consulting personnel so that they can deliver fully integrated, personalized services across all product lines, thereby maximizing the value of our channels.
3. Build trust with professionalism in wealth management: Standing by our core value of “Pure as Jade, Sturdy as Mountain,” E.SUN Bank stays focused on watching over customers’ long-term value and asset growth. We provide customers with specialized

consultations to help protect their assets. Our private banking services feature a solid grasp of KYC, asset and liability management, and consolidation of cross-border platforms as we assist customers—their families and companies—in taking care of property inheritance and tax planning among other undertakings.

4. Deliver a fresh experience in smart consumer banking: We will focus on catering to quality customers and consolidating regional resources to ensure long-term growth. We will also create a brand-new consumer banking experience by combining technology and people, thereby bringing the value of the aforesaid quality customers to its fullest. As far as our consumer banking team is concerned, regional consultants will be assigned to help strengthen salespeople’s marketing expertise and skills.
5. Forge cross-sector partnerships for payment banking: With the advent of such innovative payment tools as third-party payment and Apple Pay, we will stay focused on developing cross-border applications, mobile payments, and innovative collections and payments. We will also join forces with our long-term partners to help customers enjoy greater convenience in making payments.
6. Craft a premium brand name for SME banking: Our team of professionals has long been a reliable backer of business success. Building on our long-time experience in SME services, we will combine our resources in and outside Taiwan to serve cross-border customers and set up RM teams to better serve SMEs in different regions. As green banking increasingly comes under the spotlight, we will also do our share in helping businesses shift to green energy and turn green

themselves.

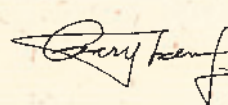
7. Pursue cross-border consolidation to expand in Asia: As our overseas network gradually takes shape, we are on the way to entering a new age for overseas expansion. Pooling the prowess of these overseas outposts, we will be able to prove a financial services provider fitted with both cross-border capabilities and strengths unique to various localities in this part of the world. On the Chinese mainland, our subsidiary will stay focused on growing customers in need of cross-border services. For its part, the Hong Kong Branch will play a central part in developing an offshore capital allocation center catering specifically to Taiwanese businesspeople. In a similar vein, our network of subsidiaries and branches across Singapore, Vietnam, Myanmar, and Cambodia is also well-suited to offer cross-border financial services.

Strive for Sustainable Development

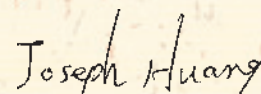
The most beautiful mountain. The most beloved bank. We have gathered a team of partners sharing the same aspirations and ideals who work hard to excel in the three most indicative areas for any business venture: overall performance, corporate social responsibility, and sustainable development. It is our belief that only by focusing on sustainable development as a long-term value and incorporating CSR into business strategy can we make the best-performing, most-respected bank. As such, we pledge to build a happiness-giving enterprise—a supportive environment where all employees can bring their potential to the fullest. We also took the lead to set up the E.SUN Baby Growth Fund as an incentive for employees to have children and help cultivate a quality young generation.

Separately, we also take responsible investment and lending seriously. As a signatory of the Equator Principles, we are set to join forces with customers for an intelligent, strategic, and methodical approach toward ensuring environmental sustainability. To attain sustainable development, we will keep up our endeavors across all aspects of our business: corporate governance, employees, customers, the environment, and society at large.

Both opportunities and challenges abound in the days ahead. As our third decade unfolds, E.SUN Bank has adopted the core strategy of striving for “financial innovation, deepening roots in Taiwan, and making inroads into Asia”, so that we can take full advantage of the fintech and the Asian market that are both on the rise. With technology as our growth accelerator, we are committed to creating long-term value for shareholders and striking a balance between benefits for all stakeholders. Our gratitude goes to all those who have been generous with support and exhortation of E.SUN Bank over the years. We pledge to keep up our endeavors and help build a brighter future for all. All the best!



Gary K.L. Tseng
Chairman of the Board



Joseph N.C. Huang
President

II. Company Profile



1. Introduction

1.1 Date of Establishment : January 16, 1992

Date of Opening : February 21, 1992

1.2 Company Development

E.SUN Bank was founded on January 16th 1992 and commenced its business on February 21st 1992. Under the leadership of the founder and the incumbent Chairman of E.SUN Financial Holding Company, Mr. Yong Ren Huang, a team of financial elite beheld a shared goal – in the name of E.SUN, committed to the philosophy of “expertise, service, business”, engaged in the action principal of “E.SUN’s responsibility - nurturing talents and providing the best services”, and dedicated to be the “role model in finance and benchmark in service”.

Core Value and Sustainable Development

“Building system, cultivating talent, and developing IT” are the three main infrastructure for E.SUN’s lasting mission. E.SUN is committed to its core value, “pure as jade, sturdy as mountain”, providing professional and heartwarming service to the customers. Moreover, E.SUN employees strive to be first class citizens, while E.SUN strives to be the first class corporate citizen with its love and caring CSR initiatives as fountain for sustainable development.

The Transformation of the Branch Innovative Leads Operation

Given the evolution of consumer behavior in a fast-changing business environment, channels are the foundation of customer service. Revamping channels holds the key to financial services businesses. E.SUN is set to undertake customer-centered reform in every aspect, including technology, organization, personnel, and integrate the virtual and physical channels to providing a premium, seamless customer experience. Emphasis will be placed on delivering differentiated services across its physical branches, overseas outlets, and e-channels. Committed to making a comprehensive network of financial services, the Bank will persist with prudent management, pioneering innovation, and top-notch service quality, thereby consistently deliver valuable and differentiated service.

Confronting the unpredictable market and

competitive environment, E.SUN will sustain its prudent strategy, its leading financial innovation, and its quality services to excel in the challenges, building a comprehensive financial service network for customers. Having increased domestic branches to 137, E.SUN Bank is proactive to have them complemented by virtual channels so as to bring about a higher level of efficiency. Drawing on technological advancement, it also adopts an innovative, flexible approach to solving problems and meeting needs while providing customers with a full spectrum of financial services. When it comes to expanding abroad, the Bank has two subsidiaries—Union Commercial Bank (UCB)—in Cambodia and a subsidiary in China; established six branches, which are Hong Kong, Los Angeles, Singapore, Vietnam, Myanmar and Sydney Branch, and a representative office in Hanoi, Vietnam. Preparations are now under way to expand our network in China and other parts of Southeast Asia. A brief review of the Bank’s history is as follows:

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

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

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

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

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



increased shareholding of UCB to 75%. Our Cambodia subsidiary now has in total 13 branches, providing financial service including deposits, loans and credit cards etc..

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

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

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

i. Others: None.

E.SUN's Glory

E.SUN Commercial Bank has always used a differentiated management approach that emphasizes freshness, professionalism, and services, which is why the Bank has received recognition and encouragement from government authorities, domestic and foreign professional institutions, as well as society. We will continue to leverage the strength of our teams and win the support of our customers, shareholders, and all sectors of our society. In the last three years, E.SUN Commercial Bank has achieved the following honors and recognition:

Overall Performance

- E.SUN Bank ranked No.1 of the benchmark financial institution in Taiwan (CommonWealth Magazine)
- E.SUN FHC was included in Dow Jones Sustainability Emerging Market Index for 3 consecutive years
- E.SUN Bank received the Best Domestic Bank in Taiwan Award for 3 consecutive years (Asiamoney)
- E.SUN Bank received the Best Domestic Bank in Taiwan Award for 2 consecutive years (The Asset)
- E.SUN Bank received SME Partner Award in 11 consecutive years (MOEA, Credit Guarantee Fund)
- E.SUN Bank received SME Partner Award (Youth Support) in 5 times (MOEA, Regional Development)
- E.SUN FHC received Award–Most Admired FHC by Finance and Insurance graduate in two consecutive years (RMIM)
- E.SUN Bank received the award of Best Payment Bank in Taiwan (The Asian Banker)
- CEO Mr. Joseph Huang received the award of Best CEO (Investor Relations) in 2 consecutive years (Corporate Governance Asia)
- E.SUN Bank received the award of Best IR Company in Taiwan in 2 consecutive years (Corporate Governance Asia)
- E.SUN Bank received the award of Best Overall Bank for Cash Management in Taiwan (Global Finance)
- Mr. Joseph Huang, President of E.SUN FHC was chosen as the Best CEO in Taiwan (FinanceAsia)
- Mr. Joseph Huang, President of E.SUN FHC received the award of Best Chief Executive Officer Award in Asia for two consecutive years (The Asset)

- Ms. Magi Chen, CFO of E.SUN FHC was chosen as the Best CFO in Taiwan (FinanceAsia)
- E.SUN FHC ranked No.1 in Best IR Company in Taiwan (FinanceAsia)
- E.SUN FHC received the award of Highly Commended: Best Private Banking in Taiwan (Timetric)
- E.SUN Bank received Bank of year award in Taiwan (The Banker)

Digital Innovation

- E.SUN Securities Ranked 1st place in the excellent performance of ETF Trading Competition (TWSE)
- E.SUN Bank Ranked 1st place in cultural and creative lending award for two consecutive years (FSC)
- E.SUN Bank received merit award of Financing of SMEs by Domestic Banks for four times (FSC)
- E.SUN Bank received the award for e-commerce lending of Financing of SMEs by Domestic Banks for four times (FSC)
- E.SUN Bank received the award of Best in Treasury and working capital -SME in Taiwan for 4 consecutive years (The Asset)
- E.SUN Bank received the award of e-solution partner bank in Taiwan (The Asset)
- E.SUN Bank received the award of Best E-Bank in Taiwan (The Asset)
- E.SUN Bank received the award of Best Data and Analytics Initiative in Taiwan (The Asian Banker)
- E.SUN Bank received the award of The Credit Risk Technology Implementation of the Year in Taiwan (The Asian Banker)
- E.SUN Bank received the award of Best Payments Portal in Taiwan (with PayPal) (The Asian Banker)
- E.SUN Bank received the award of Best Cash Management Project in Taiwan (with Gamania Group) (The Asian Banker)
- E.SUN Bank received the award of Best Data and Analytics Project- Single country (with SAS) (The Asian Banker)
- E.SUN Bank received the award of Internet Banking Product of the Year in Taiwan (The Asian Banker)
- E.SUN Bank received the award of Retail

Payment Product of Year in Taiwan (The Asian Banker)

- E.SUN Bank received the award of The First-Ever Digital Banks Of Distinction in Taiwan (Global Finance)
- E.SUN Bank received the award of Best Card Offering in North Asia (Timetric)
- E.SUN Bank received the award of Best Card Design in Asia (Timetric)
- E.SUN Bank received the award of Best Merchant Product Offering in Asia (Timetric)
- E.SUN Bank received the award of Best Merchant Acquiring Technology Solution in Asia (Timetric)
- E.SUN Bank received the award of Best Mobile Point-of-Sale (mPos) Initiative in Asia (Timetric)
- E.SUN Bank received the award of Best Merchant CRM Program: Highly Commended in Asia (Timetric)
- E.SUN Bank received the award of Best Merchant Acquiring Initiative: Highly Commended in Asia(Timetric)
- E.SUN Bank received the award of Most Innovative Retailer Adoption: Highly Commended in Asia(Timetric)
- E.SUN Bank received the award of Best New Product, Service or Innovation Launch: Highly Commended in Asia (Timetric)
- E.SUN Bank received the award of Best Cash Management Solution in Asia (Timetric)
- E.SUN Bank received the award of Asia Trailblazer of the Year (Timetric)
- E.SUN Bank received the award of Digital Champion in Asiapac for two consecutive years (Gartner)
- E.SUN Bank received the award of Most Innovative Digital Cost Saving Initiative in Asia (Gartner)
- E.SUN Bank Ranked 1st place in 2016 Formosa Bond Underwriting (Bloomberg)
- E.SUN Bank received the award of Asia Pacific Leader in Business Agility (IDC)
- E.SUN Bank received the award of Greatest Contribution of the Year for two consecutive years (MasterCard)
- E.SUN Bank received the award of Best Commercial Product of the Year for two consecutive years (MasterCard)

Sustainable Development

- E.SUN FHC ranked No.1 in financial institutions (and overall No.3 among large corporate) in the Award of Excellence in Corporate Social Responsibilities 9 times (CommonWealth Magazine)
- E.SUN Bank was top-ranked among financial institutions in Golden Service Award (CommonWealth Magazine)
- E.SUN FHC received Best CSR Award in Financial (Global Views)
- E.SUN FHC received Best CSR Award in Education Promotion (Global Views)
- E.SUN Bank received Best Wealth Management Bank award for 3 consecutive years (Business Today Magazine)
- E.SUN Bank received Best Wealth Management Product award for 3 consecutive years (Business Today Magazine)
- E.SUN Bank received Best Wealth Management Image award (Business Today Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best CSR for 3 consecutive years (Wealth Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best Domestic Bank for 3 consecutive years (Wealth Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best Banking Product for 3 consecutive years (Wealth Magazine)
- E.SUN FHC received the Golden Quality Award in Financial Brand & CSR Survey- Best Fintech in Banking (Wealth Magazine)
- E.SUN FHC received the merit Award in Financial Brand & CSR Survey- Best Fintech in Securities (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Best Wealth Management Bank (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Best service provider (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Best Financial Consultant Team (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Best Choice Bank (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Best Promotion activities (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Best Wealth Management Bank (Wealth Magazine)
- E.SUN Bank received Wealth Management Survey –Most Promising Bank (Wealth Magazine)
- E.SUN Bank received the 8th Best Practice Awards- Best CSR (Taiwan Academy of Banking and Finance)
- E.SUN Bank received the 8th Best Practice Awards- Best Risk Management (Taiwan Academy of Banking and Finance)
- E.SUN Bank received merit award in 8th Best Practice Awards- Best Human Resource Development (Taiwan Academy of Banking and Finance)
- E.SUN Bank received the 8th Best Practice Awards- Best Wealth Management (Taiwan Academy of Banking and Finance)
- E.SUN Bank received the 8th Best Practice Awards- Best SME (Taiwan Academy of Banking and Finance)
- E.SUN Bank received the 8th Best Practice Awards- Best Digital Finance (Taiwan Academy of Banking and Finance)
- E.SUN Bank received Silver Medals in Service Industry Survey in Taiwan (Commercial Times)
- E.SUN FHC ranked within top 5% of Corporate Governance Evaluation for 2 consecutive years (TWSE)
- E.SUN FHC received the Top 10 Most Sustainable Company Award for 2 consecutive years (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received the Gold medal in financial and insurance industry for Taiwan Top 50 Corporate Sustainability Report Awards for 2 consecutive years (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Innovation Development Awards for Taiwan Corporate Sustainability Awards (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Transparency and Integrity Awards for Taiwan Corporate Sustainability Awards (Taiwan Institute for Sustainable Energy)

- E.SUN FHC received Social Inclusion Awards for Taiwan Corporate Sustainability Awards (Taiwan Institute for Sustainable Energy)
- E.SUN FHC received Talent Development Awards for Taiwan Corporate Sustainability Awards (Taiwan Institute for Sustainable Energy)
- E.SUN Bank received the certificate for ISO 14064-1:2006 Greenhouse Gases Emissions Verification
- E.SUN Securities received the certificate for ISO 9001:2015 Quality Management System
- E.SUN 2015 CSR Report has received ISAE 3000 standard certification
- E.SUN 2015 CSR Report received the AA1000 Assurance Standards and was deemed in accordance with the Level A+ of the Global Reporting Institute GRIG4 Guidelines
- E.SUN Bank received the merit certificate for Green Procurement for 7 consecutive years (Environmental Protection Administration)
- E.SUN Bank received the merit certificate for Green Procurement by Private-Sector Enterprise and Organization for 8 consecutive years (Taipei City Government)
- E.SUN Bank received Exercise Enterprise Certification Awards (Sports Administration, Ministry of Education)
- E.SUN Bank received Bronze award of Sports Activists Awards for three consecutive years (Sports Administration, Ministry of Education)
- E.SUN FHC received the Platinum Award for Excellence Management in Corporate Governance in Asia for 7 consecutive years. (The Asset)
- E.SUN Bank received the award of The

Anti-Money Laundering Risk Technology Implementation of the Year in Taiwan (The Asian Banker)

- E.SUN Bank received the award of Best CSR in Taiwan for 2 consecutive years (Corporate Governance Asia)
- E.SUN FHC Ranked 1st place among Financials in Best Managed Company in Taiwan (FinanceAsia)
- E.SUN FHC Ranked 1st place among Financials in Best CSR in Taiwan (FinanceAsia)
- E.SUN Bank received the award of Best Security Initiative in Asia (Timetric)

Striving for a Future of Excellence

E.SUN will continue to consolidate on its three main pillars: “building system , cultivating talent, and developing IT”. E.SUN’s employees have and ideal and mission to pass the torch and fight for the team goal. E.SUN is determined to become the “role model in finance and benchmark in service”, and to create value for employees, customer, shareholder, and the country.

In the three decade since inception, even when confronting the severe challenges from the financial market, E.SUN will stick to its core value and exert the high execution of the team. In the ever-changing environment, E.SUN will sustain and shine. We will develop market in Taiwan while expand into market in Asia to deliver a more complete financial solution with its seamless channels, quality brand, big data analytics, and intact platform. E.SUN will become the pride of Taiwan and will shines in the world. E.SUN will be the bank to be respected and loved!

Expanding E.SUN Network of Excellent Service :

E.SUN Commercial Bank, LTD. 137

Overseas Network 6

(Hong Kong 、 Singapore 、 Los Angeles 、 Vietnam 、 Sydney 、 Myanmar)

Representative Office 1

E.SUN Bank's subsidiary in China - E.SUN Bank (China) 4

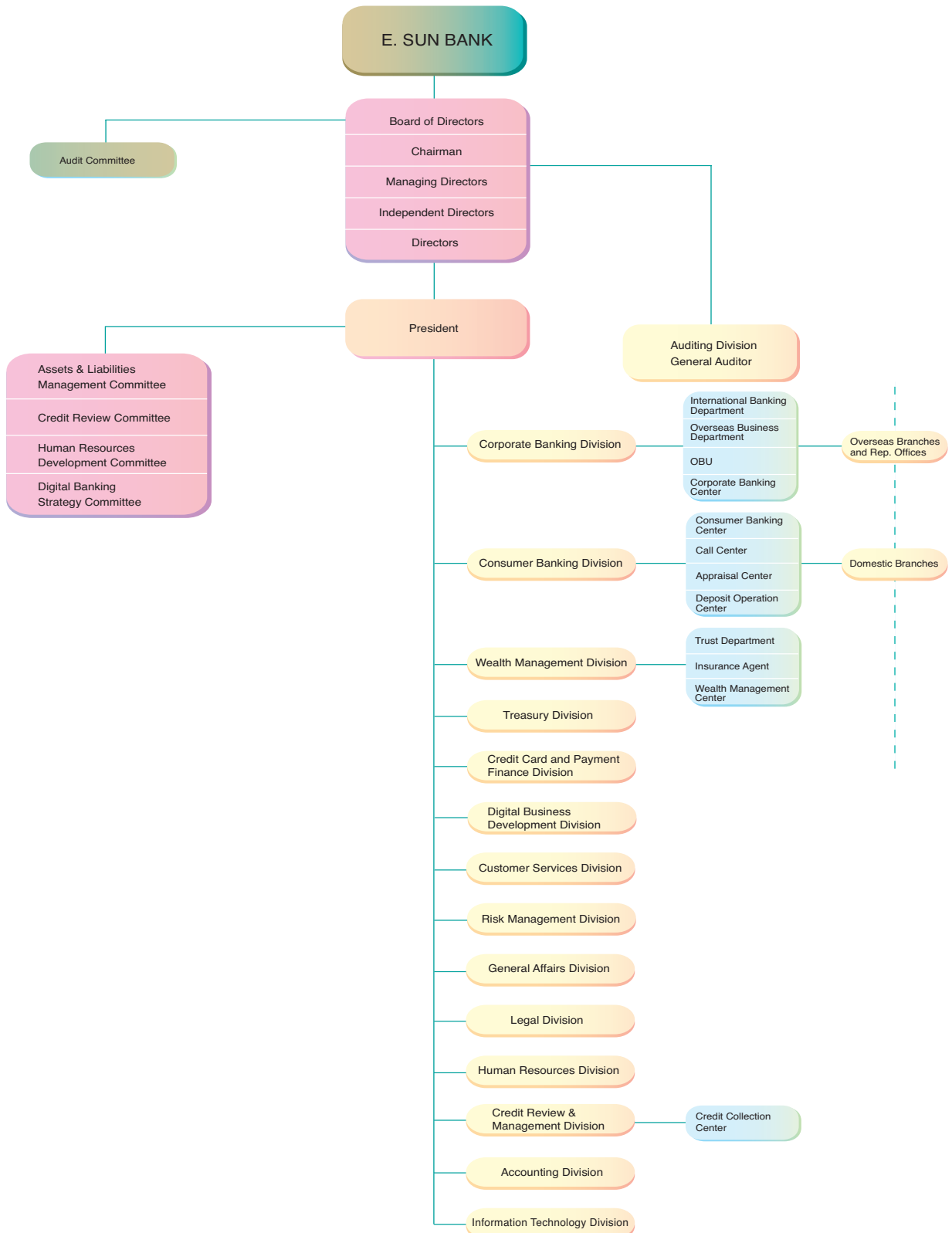
(Qianhai 、 Shenzhen 、 Dongguan 、 Changan)

E.SUN Bank's subsidiary in Cambodia - UCB 13

III. Corporate Governance Report



1. Organization



2. Directors, Independent Directors and Management Team

2.1 Directors and Independent Directors

2016.12.31 Unit:1000 shares;%

Position	Nationality or place of incorporation	Representative (Name)	Gender	Date of Election	Term (years)	Date of First Elected	Shareholding When Elected		Shareholding in E.SUN FHC						Education (Experience)	Current Position with Other Company	Spouse or Relatives within the 2 nd Degree of Kinship who is a Member of the Management Team, Directors or Supervisors		
									Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio					
Chairman	ROC	Representative of E.SUN Financial Holding Company Gary K.L. Tseng	M	2014.06.26	3	2010.5.14	6,136,000	100	7,262,883	100	0	0	0	0	Harvard University Master's in Public Administration, Director General of Banking Bureau, Financial Supervisory Commission	Chairman of E.SUN Bank	None	None	None
Managing Director & President	ROC	Representative of E.SUN Financial Holding Company Joseph N.C. Huang	M	2014.06.26	3	2008.6.13	6,136,000	100	7,262,883	100	0	0	0	0	MBA of the City University of New York, 24 years in Financial Industry	President of E.SUN FHC, President and Managing director of E.SUN Bank, Chairman of E.SUN Bank(China), Director of Cho Pharma Inc.	None	None	None
Managing Director	ROC	Representative of E.SUN Financial Holding Company Jackson Mai	M	2014.06.26	3	1991.12.16	6,136,000	100	7,262,883	100	0	0	0	0	Kai-Nan Commercial & Technical High School	Chairman of Hsin Tung Yang Co.,Ltd., Shang Yang Investment Co.,Ltd., Ding Yang Investment Co.,Ltd., Cheng Yang Investment Co.,Ltd. and Hsin Tung Yang Real Estate Broker Co.,Ltd. Director of Hsin Tung Yang Constructio Co.,Ltd. Chairman of Yuan Sheng Co.,Ltd. Director of Hua Yang Logistics Co.,Ltd., Tao Garden Hotel, Shang Yang Development Co.,Ltd. and Shang Yang International Development Co.,Ltd. Chairman of Sheng Yang Construction Co.,Ltd. and Sin Yang Investment Co.,Ltd. Managing Director of E.SUN Bank	None	None	None
Independent Director (Managing Director)	ROC	Representative of E.SUN Financial Holding Company Chen-Chen Chang Lin	F	2014.06.26	3	2007.8.16	6,136,000	100	7,262,883	100	0	0	0	0	Master of Mathematical Statistics of University of Michigan	Independent director and Managing director or E.SUN Bank Convener of remuneration committee of E.SUN FHC.	None	None	None
Independent Director	ROC	Representative of E.SUN Financial Holding Company Chen-En Ko	M	2014.06.26	3	2007.8.16	6,136,000	100	7,262,883	100	0	0	0	0	PhD of Department of Accounting at University of Minnesota, Dean, College of Management, National Taiwan University	Honorary professor of Department of Accounting at National Taiwan University Independent director of E.SUN Bank Independent director and member of Audit committee of Chang Type Industrial Co.,Ltd. Independent director and member of remuneration committee of Novatek Microelectronics Co. Director of Cho Pharma Inc. Independent director and member of remuneration committee of Everlight Electronics Co.,Ltd. Member of remuneration committee of ATEN International Co.,Ltd., Zhen Ding Tech. Co.,Ltd. and E.SUN FHC. Supervisor of Synovel Sciences Inc.	None	None	None

Position	Nationality or place of incorporation	Representative (Name)	Gender	Date of Election	Term (years)	Date of First Elected	Shareholding When Elected		Shareholding in E.SUN FHC						Education (Experience)	Current Position with Other Company	Spouse or Relatives within the 2 nd Degree of Kinship who is a Member of the Management Team, Directors or Supervisors		
									Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
							Shares	Ratio	Shares	Ratio	Shares	Ratio	Shares	Ratio					
Independent Director	ROC	Representative of E.SUN Financial Holding Company Ji-Ren Lee	M	2014.06.26	3	2007.8.16	6,136,000	100	7,262,883	100	0	0	0	0	PhD of Business Administration, University of Illinois, USA	Professor of International Business at National Taiwan University. Independent director of E.SUN Bank. Independent director and member of remuneration committee of Acer Inc. and Wow Prime Group. Member of remuneration committee of Nien Hsing Textile Co.,Ltd., Mediatek Inc. and E.SUN FHC. Independent director of Delta Electronic Inc. Director of Yu Hsin management consultant Co.,Ltd.	None	None	None
Independent Director	ROC	Representative of E.SUN Financial Holding Company Hsin-I Lin	M	2014.06.26	3	2008.6.13	6,136,000	100	7,262,883	100	0	0	0	0	Bachelor of Department of Mechanical Engineering, National Cheng-Kung University	Director of Yulon Motor Co.,Ltd., China Motor Co.,Ltd., Yan Ching-Ling Industrial Development Foundation, Acer Inc. and Acer Foundation. Chairman of Guang Yuan Investment Co.,Ltd. Director of Shye Shyang Mechanical Industrial Co., Ltd. and Yulon Management Company Independent director of E.SUN Bank Member of remuneration committee of E.SUN FHC and Shihlin Electric&Engineering Corp.	None	None	None
Director	ROC	Representative of E.SUN Financial Holding Company Rong-Chu Chen	M	2014.06.26	3	2005.06.10 2008.11.04 Resigned	6,136,000	100	7,262,883	100	0	0	0	0	Junan Junior High School	Chairman of Chen Chin-Po Culture and Education Foundation, Ron Yuan Investment Co.,Ltd. and Fu Yuan Investment Co.,Ltd. Director or E.SUN Bank and Jia Tien Sia Investment Co.,Ltd.	None	None	None
Director	ROC	Representative of E.SUN Financial Holding Company Chien-Li Wu	M	2014.06.26	3	1995.4.17	6,136,000	100	7,262,883	100	0	0	0	0	Chung Jung High School	Chairman of Shang Li Car Co.,Ltd., Ruen Li Transportation Co.,Ltd., Shen Li Investment Co.,Ltd., Shang Li Transportation Co.,Ltd., Shan Ben Intl. Investment Co.,Ltd. Sun lit Investment Pty., Ltd. and Shen Li Transportation Co.,Ltd. Director of Guang Yuan Investment Co.,Ltd., Genius Technology Co.,Ltd., Keeper Technology Co.,Ltd. Tong Lit Logistics Co.,Ltd., Tong Chun Co.,Ltd., E.SUN Bank and Yung Feng Shun Construction Co.,Ltd. Supervisor of Jung Shing Wire Co.,Ltd.	None	None	None
Director	ROC	Representative of E.SUN Financial Holding Company Magi Chen	F	2014.06.26	3	2011.07.07	6,136,000	100	7,262,883	100	0	0	0	0	MBA. The University of Tennessee, 39 years of experience in financial industry	Deputy president and CFO of E.SUN FHC and E.SUN Bank, Director of E.SUN Bank	None	None	None
Director	ROC	Representative of E.SUN Financial Holding Company Ben Chen	M	2014.06.26	3	2014.06.26	6,136,000	100	7,262,883	100	0	0	0	0	Department of Business Administration, Soochow University, 27 years experience in financial industry	Deputy president of E.SUN FHC, CEO of consumer banking division and Director of E.SUN Bank	None	None	None
Director	ROC	Representative of E.SUN Financial Holding Company Mao-Chin Chen	M	2014.06.26	3	2011.07.07	6,136,000	100	7,262,883	100	0	0	0	0	Master of Economics, National Taiwan University, 25 years of experience in financial industry	CEO of Corporate Banking Division of E.SUN Bank, CSO of E.SUN FHC and E.SUN Bank, Director of UCB	None	None	None
Director	ROC	Representative of E.SUN Financial Holding Company Louis Chang	M	2016.01.08	Till the end of this term	2016.01.08	6,136,000	100	7,262,883	100	0	0	0	0	Master of Business and Management National Chiao Tung University, 19 years of experience in financial industry	SEVP of of Wealth Management Division of E.SUN Bank and E.SUN FHC	None	None	None

Major Shareholders of the Institutional Shareholders

2016.12.31

Name of institutional shareholders	Major shareholders of the institutional shareholders
E.SUN Financial Holding Co., Ltd.	First State Investments (4.66%) Ron-Yuan Investment Co., Ltd. (3.24%) E.SUN Commercial Bank Trust Fiduciary trust account (2.75%) Chunghwa Post Co., Ltd. (2.18%) Government of Singapore (1.78%) ABU DHABI Investment Authority (1.71%) Vanguard (1.62%) Bank J. Safra Sarasin Ltd--Singapore Branch - For Clients' account (1.40%) Fidelity Investment Trust (1.39%) Saudi Arabian Monetary Agency (1.35%)

Professional Qualifications and Independent Analysis of Directors

Name (note)	Criteria	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (note)										Number of Other Public Companies in Which the Individual is Concurrently Serving as an Independent Director
		An Instructor or Higher Position in a Department of Commerce, Law, Finance, Accounting, or Other Academic Department Related to the Business Needs of the Company in a Public or Private Junior College, College or University	A Judge, Public Prosecutor, Attorney, Certified Public Accountant, or Other Professional or Technical Specialist who has Passed a National Examination and been Awarded a Certificate in a Profession Necessary for the Business of the Company	Have Work Experience in the Areas of Commerce, Law, Accounting, or Otherwise Necessary for the Business of the Company	1	2	3	4	5	6	7	8	9	10	
Chairman Gary K.L. Tseng		✓	✓	✓	✓		✓	✓		✓	✓	✓	✓		0
Managing Director Jackson Mai				✓	✓		✓	✓		✓	✓	✓	✓		0
Managing Director Joseph N.C. Huang				✓			✓	✓		✓	✓	✓	✓		0
Independent Director/Managing Director Chen-Chen Chang Lin				✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Independent Director Chen-En Ko		✓		✓	✓	✓	✓	✓		✓	✓	✓	✓		3
Independent Director Ji-Ren Lee		✓		✓	✓	✓	✓	✓		✓	✓	✓	✓		3
Independent Director Hsin-I Lin				✓	✓	✓	✓	✓		✓	✓	✓	✓		0
Director Ron-Chu Chen				✓	✓		✓	✓		✓	✓	✓	✓		0
Director Chien-Li Wu				✓	✓		✓	✓		✓	✓	✓	✓		0
Director Magi Chen				✓			✓	✓		✓	✓	✓	✓		0
Director Ben Chen				✓			✓	✓		✓	✓	✓	✓		0
Director Mao-Chin Chen				✓			✓	✓		✓	✓	✓	✓		0
Director Louis Chang				✓			✓	✓		✓	✓	✓	✓		0

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

- (1) Not an employee of the bank or any of its affiliates.
- (2) Not a director or supervisor of affiliates of the bank, except cases that the person serves as independent director of the bank or its parent company or its subsidiary according to the security exchange law or other local laws.
- (3) Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Company or ranking in the top 10 in holdings.
- (4) Not a spouse, relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any of the persons in the preceding three subparagraphs.
- (5) Not a director, supervisor, or employee of a corporate shareholder that directly holds 5% or more of the total number of outstanding shares of the Company or that holds shares ranking in the top five in holdings.
- (6) Not a director, supervisor, or officer, shareholder holding 5% or more of the share, of a specified company or institution that has a financial or business relationship with the Company.
- (7) Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial or accounting services or consultation to the Bank or to any affiliate of the Bank, or a spouse thereof. The restriction does not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies Whose Stock is Listed on the TWSE or Traded on the GTSM.
- (8) Not having a material relationship, or a relative within the second degree of kinship to any other director of the Company.
- (9) Not been a person of any conditions defined in Article 30 of the Company Law.
- (10) Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

2.2 Executive Officers



2017.03.30 Unit: 1,000 shares; %

Department	Position	Nationality	Name	Gender	Date of Appointment	Shareholding in E.SUN FHC(2016.12.31)						Experience (Education)	Current Position with E.SUN and Other Company	Spouse or Relatives within the 2nd Degree of Kinship who is a Manager of the Company		
						Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
						Shares	%	Shares	%	Shares	%					
Headquarter	President	Taiwan R.O.C.	Joseph N.C. Huang	M	2011.08.01	8,811	0.1005	279	0.0032	0	0	President of E.SUN, FHC	Director, President and CSO of E.SUN FHC; Director of ESB; Director of Kellong (International) Cosmetic Ltd. and Cho Pharma Inc.	none	none	none
Corporate Banking Division	Deputy President	Taiwan R.O.C.	Suka Chen	M	2012.01.07	1,865	0.0213	84	0.0010	0	0	CEO of Consumer Banking Division, ESB	President and Director of E.SUN Bank (China)	none	none	none
Corporate Banking Division	CEO of Corporate Banking Division	Taiwan R.O.C.	Mao-Chin Chen	M	2016.01.29	1,144	0.0131	965	0.0110	0	0	SEVP of Corporate Banking Division, ESB	CSO of E.SUN FHC; Director of E.SUN Bank; Director of UCB	none	none	none
Corporate Banking Division	SEVP	Taiwan R.O.C.	L.C. Lin	M	2012.01.07	431	0.0049	651	0.0074	0	0	EVP of Corporate Banking Division, ESB	SEVP of E.SUN FHC; Chairman of E.SUN Venture Capital	none	none	none
Corporate Banking Division	SEVP	Taiwan R.O.C.	Chi-Kan Chung	M	2015.02.06	1,016	0.0116	0	0	0	0	EVP of Corporate Banking Division, ESB	Director and President of UCB	none	none	none
Corporate Banking Division	SEVP	Taiwan R.O.C.	Joseph Shu	M	2014.01.24	795	0.0091	0	0	0	0	SEVP of Treasury Division, ESB	Deputy President and Director of E.SUN Bank (China)	none	none	none
Corporate Banking Division	SEVP	Taiwan R.O.C.	Cathy Kuo	F	2017.01.20	1,247	0.0142	0	0	0	0	EVP of Corporate Banking Division, ESB	Director of UCB	none	none	none
Corporate Banking Division	SEVP	Taiwan R.O.C.	Kenneth Tsao	M	2016.12.16	212	0.0024	0	0	0	0	General Manager of DBS	Deputy President of E.SUN Bank (China)	none	none	none
Corporate Banking Division	EVP	Taiwan R.O.C.	Cheng-Hsien Tseng	M	2016.01.13	301	0.0034	0	0	0	0	Managing Director of DBS Bank (China) Institutional Banking 3/4 Group	Deputy President of E.SUN Bank (China)	none	none	none
Corporate Banking Division	EVP	Taiwan R.O.C.	Hao-Chang Lien	M	2013.09.13	73	0.0008	0	0	0	0	Chief Compliance Officer of E.SUN FHC	Chief of internal auditors of E.SUN Bank (China)	none	none	none
Corporate Banking Division	EVP	Taiwan R.O.C.	Da-Tan Lin	M	2014.01.24	867	0.0099	12	0.0001	0	0	EVP of Corporate Banking Division, ESB	none	none	none	none

Department	Position	Nationality	Name	Gender	Date of Appointment	Shareholding in E.SUN FHC(2016.12.31)						Experience (Education)	Current Position with E.SUN and Other Company	Spouse or Relatives within the 2nd Degree of Kinship who is a Manager of the Company		
						Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
						Shares	%	Shares	%	Shares	%					
Corporate Banking Division	EVP	Taiwan R.O.C.	Yao-Bing Lin	M	2016.01.22	1,167	0.0133	3	0.00004	0	0	EVP of Corporate Banking Division, ESB	Director of E.SUN Bank (China)	none	none	none
Corporate Banking Division	EVP	Taiwan R.O.C.	Shou-Ling Hsu	F	2015.02.06	339	0.0039	0	0	0	0	SVP of Corporate Banking Division, ESB	none	none	none	none
OBU Branch	SVP	Taiwan R.O.C.	Tung-Yu Hung	M	2013.02.01	487	0.0056	1	0.00001	0	0	SVP of Corporate Banking Division, ESB	Director of E.SUN Venture Capital	none	none	none
International Banking Department	EVP	Taiwan R.O.C.	Maggy Chou	F	2016.01.22	1,011	0.0115	256	0.0029	0	0	SVP of International Banking Department, ESB	Deputy President of E.SUN Bank (China)	EVP	Chun-Nan Tsai	Spouse
Consumer Banking Division	CEO of Consumer Banking Division	Taiwan R.O.C.	Ben Chen	M	2015.02.06	3,305	0.0377	1,050	0.0120	0	0	Deputy President of Credit Card and Payment Finance Division, ESB	Deputy President and Director of E.SUN FHC; Director of ESB	none	none	none
Consumer Banking Division	SEVP	Taiwan R.O.C.	Wu-Ming Hsieh	M	2014.01.24	591	0.0067	617	0.0070	0	0	EVP of Consumer Banking Division, ESB	SEVP of E.SUN FHC; Director of E.SUN Securities	none	none	none
Consumer Banking Division	SVP	Taiwan R.O.C.	Te-Ming Chung	M	2015.02.06	513	0.0058	598	0.0068	0	0	EVP of Consumer Banking Division, ESB	Director of E.SUN Venture Capital	none	none	none
Consumer Banking Division	EVP	Taiwan R.O.C.	Ming-Ching Dai	F	2015.02.06	993	0.0113	30	0.0003	0	0	SVP of Call Center, ESB	none	none	none	none
Wealth Management Division	SEVP	Taiwan R.O.C.	Louis Chang	M	2015.02.06	1,560	0.0178	307	0.0035	0	0	EVP of Wealth Management Division, ESB	SEVP of E.SUN FHC; Director of E.SUN Bank	none	none	none
Wealth Management Division	EVP	Taiwan R.O.C.	Ya-Ping Hsieh	F	2017.01.20	501	0.0057	0	0	0	0	SVP of Wealth Management Division, ESB	none	none	none	none
Wealth Management Division	SVP	Taiwan R.O.C.	Yu-Ju Chen	F	2015.02.06	513	0.0058	6	0.0001	0	0	VP of Wealth Management Division, ESB	Director of E.SUN Securities	none	none	none
Trust Department	SVP	Taiwan R.O.C.	Chien-Chih Lin	M	2016.01.22	281	0.0032	0	0	0	0	VP of Trust Department, ESB	none	none	none	none
Treasury Division	CFO/Deputy President	Taiwan R.O.C.	Magi Chen	F	2014.01.24	1,400	0.0160	0	0	0	0	SEVP of Treasury Division, ESB	E.SUN FHC; Director of E.SUN FHC and ESB	none	none	none
Treasury Division	EVP	Taiwan R.O.C.	Hsien-Hsuan Tsai	M	2014.01.24	562	0.0064	0	0	0	0	EVP of Treasury Division, ESB	none	none	none	none
Treasury Division	EVP	Taiwan R.O.C.	Peter Shih	M	2014.01.24	768	0.0088	0	0	0	0	EVP of Treasury Division, ESB	none	none	none	none
Treasury Division	EVP	Taiwan R.O.C.	Vincent Huang	M	2015.02.06	840	0.0096	320	0.0036	0	0	SVP of Treasury Division, ESB	none	none	none	none
Treasury Division	EVP	Taiwan R.O.C.	Chao-Min Chen	M	2016.01.22	577	0.0066	0	0	0	0	SVP of Treasury Division, ESB	none	none	none	none
Treasury Division	EVP	Taiwan R.O.C.	Sarah Chen	F	2017.01.20	566	0.0065	0	0	0	0	SVP of Treasury Division, ESB	none	none	none	none
Credit Card and Payment Finance Division	SEVP	Taiwan R.O.C.	Jung-Hua Lin	M	2014.01.24	876	0.0100	330	0.0038	0	0	EVP of Credit Card and Payment Finance Division, ESB	SEVP of E.SUN FHC; Director of EasyCard Investment Holdings Co., Ltd. and EasyCard Corporation	none	none	none
Credit Card and Payment Finance Division	EVP	Taiwan R.O.C.	Fu-Chung Huang	M	2014.01.24	588	0.0067	43	0.0005	0	0	EVP of Credit Card and Payment Finance Division, ESB	none	none	none	none
Credit Card and Payment Finance Division	EVP	Taiwan R.O.C.	Samuel Lin	M	2015.02.06	605	0.0069	0	0	0	0	EVP of Credit Card and Payment Finance Division, ESB	none	none	none	none
Audit Division	General Auditor	Taiwan R.O.C.	Chung-Chen Sun	M	2012.04.26	50	0.0006	1,129	0.0129	0	0	EVP of Credit Review and Management Division, ESB	none	none	none	none

Departmen	Position	Nationality	Name	Gen-der	Date of Appointment	Shareholding in E.SUN FHC(2016.12.31)						Experience (Education)	Current Position with E.SUN and Other Company	Spouse or Relatives within the 2nd Degree of Kinship who is a Manager of the Company		
						Current Shareholdings		Shareholdings of the spouse and minors		Shareholdings under other's name				Position	Name	Relation
						Shares	%	Shares	%	Shares	%					
Headquarter	Chief Compliance Officer	Taiwan R.O.C.	Fion Ouyang	F	2016.01.22	196	0.0022	0	0	0	0	SVP of President Office, ESB	Chief Compliance Officer of E.SUN FHC	none	none	none
Headquarter	Chief Marketing Officer/ EVP	Taiwan R.O.C.	Bright Wen	M	2016.01.22	628	0.0072	56	0.0006	0	0	Vice Chief Marketing Officer of ESB	Chief Marketing Officer of E.SUN FHC; Supervisor of E.SUN Securities	none	none	none
Legal Division	SVP	Taiwan R.O.C.	Mei-Cheng Chu	F	2014.01.24	223	0.0025	0	0	0	0	VP of Legal Division, ESB	none	none	none	none
General Affairs Division	SVP	Taiwan R.O.C.	Nien Chien Sung	M	2015.02.06	564	0.0064	0	0	0	0	VP of General Affairs Division, ESB	none	none	none	none
Accounting Division	CAO/EVP	Taiwan R.O.C.	Kuan-Her Wu	M	2005.02.24	414	0.0047	0	0	0	0	EVP of Accounting Division, ESB	CAO of E.SUN FHC; Supervisor of E.SUN Venture Capital	none	none	none
IT Division	CIO/SEVP	Taiwan R.O.C.	Wan-Li Hsieh	M	2017.01.20	785	0.0090	56	0.0006	0	0	EVP of IT Division, ESB	CIO of E.SUN FHC	none	none	none
IT Division	Vice CIO/ EVP	Taiwan R.O.C.	Po-Hsuan Hsu	F	2016.01.22	1,163	0.0133	409	0.0047	0	0	EVP of IT Division, ESB	Supervisor of E.SUN Bank (China); Director of Bankpro e-Services Technology Co., Ltd.	SVP	Shi Hong Feng	spouse
IT Division	EVP	Taiwan R.O.C.	Jeff Liu	M	2017.01.20	292	0.0033	2	0.00003	0	0	SVP of IT Division, ESB	none	none	none	none
Digital Business Development Division	Chief Digital Officer/ SEVP	Taiwan R.O.C.	Cheng-Kuo Li	M	2017.01.20	1,043	0.0119	87	0.0010	0	0	EVP of President Office, ESB	Director of Bankpro e-Services Technology Co., Ltd.	none	none	none
Digital Business Development Division	EVP	Taiwan R.O.C.	Mei-Ling Liu	F	2016.01.22	593	0.0068	110	0.0013	0	0	EVP of Digital Business Development Division	Director of Gash Pay; Supervisor of TWMP	none	none	none
HR Division	Head of HR/ SEVP	Taiwan R.O.C.	J.C. Wang	M	2012.01.07	3,027	0.0345	915	0.0104	0	0	SEVP of HR Division, ESB	Head of HR of E.SUN FHC; Supervisor of Shan Meng Investment Co., Ltd.	none	none	none
Risk Management Division	CRO/EVP	Taiwan R.O.C.	Oliver Hsieh	M	2017.01.20	1,086	0.0124	0	0	0	0	EVP of Risk Management Division,ESB	CRO of E.SUN FHC	none	none	none
Credit Review and Management Division	SVP	Taiwan R.O.C.	Hsiao-Lan Lin	M	2016.01.22	436	0.0050	379	0.0043	0	0	VP of Credit Review and Management Division, ESB	none	none	none	none

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

(1) Remuneration of Directors (including Independent Directors)

2016.12.31 Unit: NT\$ thousands

Title	Name	Director Remuneration								Ratio of total remuneration (A+B+C+D) to net income (%)	Relevant remuneration received by directors who are also employees								Ratio of total compensation (A+B+C+D+E+F+G) to net income (%)	Compensation paid to directors from an invested company other than the Company's subsidiary				
		Base Compensation (A)		Severance Pay (B)		Bonus to Directors (C)		Allowance (D)			Salary, Bonuses, and Allowance (E)		Severance Pay (F)		Profit Sharing-Employee Bonus (G)									
		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company	Companies in the consolidated financial statements	The company				Companies in the consolidated financial statements		The company	Companies in the consolidated financial statements
																	Cash	Stock			Cash	Stock		
List as following		8,711	8,711	0	0	80,000	80,000	1,380	1,380	0.67%	0.67%	29,592	29,592	0	0	3,280	0	3,280	0	0.92%	0.92%	None		

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

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

Remuneration Bracket

Unit: NT\$ thousands

Bracket	Name of Directors			
	Total of (A+B+C+D)		Total of (A+B+C+D+E+F+G)	
	The Company	Companies in the consolidated financial statements (H)	The Company	Companies in the financial statements (I)
Under NT\$ 2,000,000	Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Ron-Chu Chen, Chien-Li Wu, Magi Chen, Ben Chen	Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Ron-Chu Chen, Chien-Li Wu, Magi Chen, Ben Chen	Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Ron-Chu Chen, Chien-Li Wu	Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin, Chen-En Ko, Ji-Ren Lee, Hsin-I Lin, Ron-Chu Chen, Chien-Li Wu
NT\$ 2,000,000 ~ 5,000,000	Mao-Chin Chen, Louis Chang	Mao-Chin Chen, Louis Chang		
NT\$ 5,000,000 ~ 10,000,000			Ben Chen	Ben Chen
NT\$ 10,000,000 ~ 15,000,000			Mao-Chin Chen, Magi Chen, Louis Chang	Mao-Chin Chen, Magi Chen, Louis Chang
NT\$ 15,000,000 ~ 30,000,000	Gary K.L. Tseng	Gary K.L. Tseng	Gary K.L. Tseng	Gary K.L. Tseng
NT\$ 30,000,000 ~ 50,000,000				
NT\$ 50,000,000 ~ 100,000,000	E.SUN FHC	E.SUN FHC	E.SUN FHC	E.SUN FHC
Over NT\$ 100,000,000				
Total	90,091	90,091	122,963	122,963

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

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

Unit: NT\$ thousands

Year Title	2016						2015					
	The Company			Companies in the Consolidated Financial Statements			The Company			Companies in the Consolidated Financial Statements		
	No. of persons	Amount	Ratio to Net profit after tax	No. of persons	Amount	Ratio to Net profit after tax	No. of persons	Amount	Ratio to Net profit after tax	No. of persons	Amount	Ratio to Net profit after tax
Directors	13	122,963	0.92%	13	122,963	0.92%	13	107,203	0.90%	13	107,203	0.90%
President and SEVP	17	79,470	0.59%	17	92,372	0.69%	19	112,565	0.95%	19	116,635	0.98%

Note: 2016 Bank Net Profit after tax was 13,411,351 thousand dollars ; 2015 Bank Net Profit after tax was 11,908,600 thousand dollars.

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

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

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

unit : NT\$thousands

Title	Name	Stock Amount	Cash Amount	Amount	Ratio of Amount to Net profit after tax (%)
President	Joseph N.C. Huang	0	5,515	5,515	0.04%
CEO of Corporate Banking Division	Mao-Chin Chen				
Deputy President	Suka Chen				
Deputy President	Magi Chen				
CEO of Consumer Banking	Ben Chen				
SEVP	J.C. Wang				
SEVP	L.C. Lin				
SEVP	Tony Wang				
SEVP	Wen-Cheng Cheng				
SEVP	Joseph Shu				
SEVP	Wu-Ming Hsieh				
SEVP	Jung-Hua Lin				
SEVP	Louis Chang				
SEVP	Yu-Kai Huang				
SEVP	Chi-Kan Chung				
Chief Compliance Officer	Fion Ouyang				
General Auditor	Chung-Chen Sun				

3. Implementation of Corporate Governance

3.1 Board of Directors

A total of 11 (A) meeting of the board of directors were held in the previous period. Director and supervisor attendance was as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance rate (%) [B / A]	Remarks
Chairman	E.SUN FHC representative Gary K.L. Tseng	11	0	100	Re-elected
Managing Director	E.SUN FHC representative Joseph N.C.Huang	11	0	100	Elected as Managing Director on 2016.01.08
Managing Director	E.SUN FHC representative Jackson Mai	10	1	90.9	Re-elected
Independent Director (Managing Director)	E.SUN FHC representative Chen-Chen Chang Lin	10	1	90.9	Re-elected
Independent Director	E.SUN FHC representative Chen-En Ko	11	0	100	Re-elected
Independent Director	E.SUN FHC representative Ji-Ren Lee	11	0	100	Re-elected
Independent Director	E.SUN FHC representative Hsin-I Lin	11	0	100	Re-elected
Director	E.SUN FHC representative Ron-Chu Chen	11	0	100	Re-elected
Director	E.SUN FHC representative Chien-Li Wu	11	0	100	Re-elected
Director	E.SUN FHC representative Magi Chen	11	0	100	Re-elected
Director	E.SUN FHC representative Ben Chen	11	0	100	Re-elected
Director	E.SUN FHC representative Mao-Chin Chen	7	4	63.6	Re-elected
Director	E.SUN FHC representative Louis Chang	10	0	100	2016.01.08 Newly appointed

Other mentionable items:

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

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

Director Name	Content of Motion	Cause of Avoidance	Voting
Mao Chin Chen	Letter of Support(LOS) for UCB syndicated loan	Motion concerning a business in which the director serves as a responsible person	delegated
Ron Chiu Chen	Lending to Nien Hsing Textile Co., Ltd.	Motion concerning a business of which the director is related to its responsible person	Refrained from participation in discussions and voting
Mao Chin Chen	Lending to UNION COMMERCIAL BANK PLC.	Motion concerning a business in which the director serves as a responsible person	delegated
Mao Chin Chen	Assignment of Chief Straetgy Officer	Motion concerning personal interests of the director	Refrained from participation in discussions and voting
Joseph N.C. Huang	The motion is related to making donations to the E.SUN Volunteer Foundation.	The matter under discussion involves a Charity Foundation of which the director acts as the responsible person	Refrained from participation in discussions and voting
Jackson Mai	Motion on extension of construction period and addition of budget for credit card capus building	Motion concerning a business in which the director serves as a responsible person	Refrained from participation in discussions and voting
Joseph N.C. Huang	Motion on deciding on an interbank lending quota for the Mainland China's subsidiary	Motion concerning a business in which the director serves as a responsible person	Refrained from participation in discussions and voting
J o s e p h N . C . Huang	Amendment of contract with E.,SUN China and Bankpro	Motion concerning a business in which the director serves as a responsible person	Refrained from participation in discussions and voting
Magi Chen, Ben Chen, Mao Chin Chen, Louis Chang	Making of Long Term Incentive Renu-meration Practice	Motion concerning personal interests of the director	Refrained from participation in discussions and voting
Joseph N.C. Huang, Magi Chen, Ben Chen, Mao Chin Chen, Louis Chang	Motion on remuneration adjustment to senior managers	Motion concerning personal interests of the director	Joseph N.C. Huang excused himself after reporting the agenda to SEVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin, Louis Chang refrained from participation in discussions and voting.
Joseph N.C. Huang, Magi Chen, Ben Chen, Mao Chin Chen, Louis Chang	Motion on 2014 payment of year-end bonuses to senior managers	Motion concerning personal interests of the director	Joseph N.C. Huang excused himself after reporting the agenda to SEVPs and managers of lower ranks. Magi Chen, Ben Chen, and Chen Mao-chin, Louis Chang refrained from participation in discussions and voting.
Mao Chin Chen	Subscription of UCB's rights offering.	Motion concerning a business in which the director serves as a responsible person	delegated
Mao Chin Chen	Motion on deciding on an interbank lending quota for the Mainland China's subsidiary	Motion concerning a business in which the director serves as a responsible person	Refrained from participation in discussions and voting

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

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

3.2 Audit Committee

A total of 10(A) Audit Committee meetings were held in the previous period. The attendances of Independent Directors were as follows:

Title	Name	Attendance in Person(B)	By Proxy	Attendance rate (%) [B / A]	Remarks
Independent Director	Chen-En Ko	10	0	100	Re-elected
Independent Director	Ji-Ren Lee	10	0	100	Re-elected
Independent Director	Chen-Chen Chang Lin	10	0	100	Re-elected
Independent Director	Hsin-I Lin	10	0	100	Re-elected

Other mentionable items:

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

Date	Terms	Agenda	Resolution
2016.01.08	13 th meeting of the 9 th term	Issuance of LOS for UCB	Audit Committee: Approved by committees attending the meeting and will be proposed to the Board of Directors. The Board of Directors: Approved by Directors attending the meeting. Some directors are excused from the meeting due to personal interest.
		Loan for NienHsing Textile Co. Ltd.	
		Loan for UCB	
2016.03.18	15 th meeting of the 9 th term	Financial statement (standalone and consolidated) of 2015	
		Statement of Internal control System of 2015	
		Donation for E.SUN Volunteer Foundation	
2016.04.27	16 th meeting of the 9 th term	Financial statement (standalone and consolidated) of 2015	
		Statement of Internal Control System for the bank's cooperating insurance brokerage	
2016.06.29	17 th meeting of the 9 th term	New construction project for credit card division	
2016.06.29	18 th meeting of the 9 th term	Contract between other shareholders of UCB	
		Acquisition of UCB	
2016.08.12	19 th meeting of the 9 th term	Financial statement (standalone and consolidated) of 2016 H1	
		Change of CPA	
		Amendment of Practice for Stock Affairs	
		Loan for UCB	
2016.11.04	20 th meeting of the 9 th term	Amendment of Practice for Acquisition or Disposal of Properties	
		Amendment of Agreement between E.SUN China and Bankpro	
		Interbank line of credit of E.SUN China	
		Loan for UCB	
2017.01.06	21 th meeting of the 9 th term	Increment of interbank line of credit for E.SUN China	
		Capital injection to UCB	
		Loan NienHsing Textile	
2017.03.01	22 th meeting of the 9 th term	Financial statement (standalone and consolidated) of 2016	
		Statement of Internal Control System for the bank's cooperating insurance brokerage	
		Statement of Internal control System of 2016	
2017.03.24	23 th meeting of the 9 th term	Mandate of CPA	
		Amendment of Acquisition or Disposal of Properties	
		Amendment of Practice for Stock Affairs	
		Acquisition of land in LingYia, Kaohsiung	
		Amendment of Internal Control System	

2. If there is Independent Directors' avoidance of motions in conflict of interest, the Independent Directors' names, contents of motions, causes for avoidance and voting should be specified:
-Practice of Directors' avoidance of motions in conflict of interest: None.

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

Date	Method	Object of Communication	Subject of Communication	Result
2016.01.07	Audit Committee	Appointed accountant of E.SUN Bank	CPA report of the result for auditing of 2015 Financial Statements	Acknowledged
		General Auditor of E.SUN Bank	Report of the 2015 auditing work of E.SUN	Acknowledged
2016.03.17	Audit Committee	Appointed accountant of E.SUN Bank	CPA report of the result for auditing of 2015 Financial Statements	Acknowledged
2016.04.26	Audit Committee	General Auditor of E.SUN Bank	CPA report of the 2016 Q1 auditing work of E.SUN	Acknowledged
2016.08.11	Audit Committee	Appointed accountant of E.SUN Bank	CPA report of the result for auditing of 2016H1 Financial Statements	Acknowledged
		General Auditor of E.SUN Bank	CPA report of the 2016 Q2 auditing work of E.SUN	Acknowledged
2016.11.02	Audit Committee	General Auditor of E.SUN Bank	Report of the 2016 Q3 auditing work of E.SUN	Acknowledged
			Report of the 2017 auditing work of E.SUN	Propose to the Board of Director for approval and authorization
2016.11.04	Audit Conference	General Auditor and auditors of E.SUN Bank	Report of the 2015 auditing work of E.SUN Discussion related to internal auditing work of E.SUN Bank	Executed with the suggested matter
2016.12.16	Committee	Appointed accountant of E.SUN Bank		
2017.01.04	Audit Committee	Appointed accountant of E.SUN Bank	CPA report of the result for auditing of 2016 Financial Statements	Acknowledged
		General Auditor of E.SUN Bank	Report of the 2016 auditing work of E.SUN	Acknowledged
2017.03.01	Audit Committee	Appointed accountant of E.SUN Bank	CPA report of the result for auditing of 2016 Financial Statements	Acknowledged

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

Item	State of Operation			Deviations from “Bank Corporate Governance Best Practice Principles and reasons
	Y	N	Summary	
<p>1.Shareholding Structure and Shareholders’ Equity</p> <p>(1)Does the Bank institute a set of internal operational procedures for handling shareholder proposals, doubts, disputes, and suits, as well as act in accordance with the said procedures?</p> <p>(2) Does the Bank have access to the identity of major shareholders who have actual control over the Bank as well as that of their ultimate control persons?</p> <p>(3) Does the Bank establish and implement risk control and management as well firewall mechanisms for its dealings with affiliated businesses?</p>	V		<p>(1)E.SUN FHC is the sole shareholder of the Bank. The FHC’s shareholder can file opinions via the FHC’s Stock service department or customer service division. Qualified persons will then handle these issues. Avenue for communication are quite smooth.</p> <p>(2)The Bank is a wholly owned subsidiary of E.SUN FHC.</p> <p>(3)Risk management committee has been set up to oversee the execution of risk management policy and culture. In addition, E.SUN risk management rules has been established. In terms of trading with interested parties, the Bank has adopted a number of internal regulations: Policy on Trading with Interested Parties, Operational Guidelines for Prevention of Insider Trading at Investees, Operational Guidelines for Addressing Common Interests of E.SUN Bank and Investees, Guidelines for Arm’s-Length Transactions Between E.SUN Bank and Investees, and Internal Operational Regulations for E.SUN FHC and Subsidiaries to Comply With Article 45 of the Financial Holding Company Act.</p>	No Difference
<p>2.Duties and formation of Board of Directors</p> <p>(1)Besides setting up the Compensation Committee and Audit Committee according to law, does the Bank voluntarily set up other functional committees?</p> <p>(2)Does the Bank evaluate the independence of its CPAs on a regular basis?</p>		V	<p>(1)E.SUN FHC has also established Compensation Committee, Corporate Governance and Nomination Committee, Board Strategy Development Committee and Corporate Social Responsibility Committee.</p> <p>(2)Pursuant to Article 29 of the Corporate Governance Best Practice Principles for TWSE/GTSM Listed Companies, the Bank engages professional, responsible, and independent CPAs to audit its finances and internal control on a regular basis. Meanwhile, the Bank’s Audit Committee and Board of Directors are called upon to evaluate the suitability, independence, and fair pricing of the engaged CPA firm every six months (in the first and third quarters). For its part, the CPA firm is supposed to present a statement of independence (specifying that the CPAs responsible for audit and their spouses as well as dependent relatives have no major financial interests at stake involving the Company, either directly or indirectly, or have undermined independence in any other way). E.SUN Bank reviews every year in Q1 that its Auditing Certified Public Accountant is not a related party under Article 45 of Financial Holding Company Act of Taiwan, the interest rate offers in lending and depository business has not been surpassing those of E.SUN Bank’s general customers, the Auditing Certified Public Accountant has not held the stocks of E.SUN Bank’s parent company, E.SUN FHC to ensure E.SUN bank has complied.</p>	Article 36-1 of the Corporate Governance Best-Practice Principles for Banks makes it clear that banks are supposed to establish their compensation committees. Nevertheless, as a wholly owned subsidiary of E.SUN FHC, the Bank leaves the overall performance evaluation to the Compensation Committee of the parent company
<p>3. Has the Bank established unit or persons responsible for corporate governance affairs (including but not limited to preparation of materials for directors and supervisor’s execution, director’s meeting and AGM, corporate registration, an meeting minutes of director’s meetings and AGM)?</p>	V		<p>The Legal Affair Department is responsible for corporate governance related matters and is supervised by Chief Brand Officer. Corporate governance includes the matters below:</p> <p>1.Corporate registration and amendment of registration</p> <p>2.Affairs relating directors meeting minutes and assistance of legal compliance.</p> <p>3.Production of director meeting minutes</p> <p>4.Providing the most up to date laws relating to execution of business for directors and independent directors.</p> <p>5.Matters specified by article of incorporation or agreement.</p>	No Difference
<p>4. Has the Bank established avenues of communication with interested parties?</p>	V		<p>The Bank has a special division in charge of building up and maintaining list of related party and related communication. The Bank’s customers can express their opinions through customer service units. Employee disputes will be handled by human resource division. The Bank and the related parties have a smooth communication channel.</p> <p>On the website of the Bank’s parent company E.SUN FHC, there is a special section devoted to corporate social responsibility that is designed not only for CSR reporting but also for communication with stakeholders.</p>	No Difference
<p>5. Disclosure of information</p> <p>(1)Has the Bank set up website for the disclosure of financial information and its corporate governance practices?</p> <p>(2)Any other methods adopted by the Bank for the disclosure of information (e.g., establishing English version website, appointing persons responsible for gathering and disclosing Bank information, implementing a spokesperson system, and placing the record of analyst meeting on its website)?</p>		V	<p>(1) a.Disclose status of Financial information, Business operation and Corporate governance in the website (https://www.esunbank.com.tw/bank/about/announcement/legal-disclaimers/report).</p> <p>b.Information disclosed include financial information, business operation, material for analyst meeting, internal control and contact information.</p> <p>(2)To fully follow the system of spokesman, the Bank appoints a spokesman who understand thoroughly the Bank’s financial and business conditions and who are capable of coordinating among departments. In addition, the Bank also appoints a deputy spokesman when the spokesman cannot perform his / her duties.</p> <p>E.SUN Bank Spokesman Name: Magi Chen Position: CFO / Deputy President Telephone +8862-2175-1313 Email: magi@email.esunbank.com.tw</p> <p>Deputy Spokesman Name: Mao-Chin Chen Position: CEO of Corporate Banking Division Telephone: +8862-2175-1313 Email: james-0081@email.esunbank.com.tw</p>	No Difference

Item	State of Operation			Deviations from "Bank Corporate Governance Best Practice Principles and reasons
	Y	N	Summary	
6.Has the Bank provided other important information to facilitate better understanding of the Company's corporate governance practices (including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, purchasing insurance for directors and supervisors, political donation and donation to interested party and public interested group)?	V		<p>(1)Enacted Guidelines for Minutes of Board Meetings to improve supervision and management of such meetings and to provide a regulatory basis to abide by in holding meetings.</p> <p>(2)The Company periodically asks directors and supervisors to take various courses.</p> <p>(3)The Company has established a Risk Management Division to draft and carry out risk control policies. The scope of risk reports and measurement systems cover the following:</p> <p>a.Credit Risk The information imparted at these events helps to establish systematic methods to manage risk derived from borrowers, counterparties, and portfolios, including creating an appropriate credit risk control environment, the adoption of credit risk controls for counterparties, and the establishment of counterparty credit ratings, along with limits on exposure to a single product, single industry, or single conglomerate.</p> <p>b.Market Risk The Company and all subsidiaries must establish price, currency, and interest rate fluctuation risk assessment and control mechanisms on all on-sheet and offsheet items.</p> <p>c.Operational Risk E.SUN is making every effort to establish operational procedures in all areas of business, and controls and auditing procedures on authorized limits, documents and custodianship of beneficiary certificates.</p> <p>d.Banking Book Risk E.SUN has established banking book interest risk management structure, related policy, method and procedure to measure, monitor and control Banking Book interest, and set up management index, warning threshold and limits.</p> <p>e.Legal and Compliance Risk E.SUN has established compliance officer system to effectively manage and improve the legal and compliance risk.</p> <p>f.Liquidity Risk E.SUN has established the mechanism of evaluating and monitoring liquidated positions to manage liquidity risk.</p> <p>g. Other Risk E.SUN has mechanisms to carry out and manage risk of reputation and other major risk via scenario stress tests, risk appetite analysis and capital adequacy.</p> <p>(4)E.SUN has always emphasized customer service quality. It provides customer complain channel and has implemented a number of customer protection policies.</p> <p>(5)In order to round out the company's corporate governance mechanism and reduce risk exposed to directors and key staff members of the company, E.SUN FHC has taken out liability insurance for directors, supervisors and key staff members. Those insured include past, present and future directors and key employees of E.SUN FHC and the FHC's subsidiaries, as well as managerial and supervisory personnel. The policies include liability insurance for these individuals, corporate compensation insurance, corporate securities claims liability coverage, and corporate employment practice liability coverage.</p> <p>(6)Employee disputes will be handled by Human Resource Division. This ensures smooth communication channels for interested parties. E.SUN holds knowledge sharing meetings in different region every year to disclose company's goal, policy and other employee-related information.</p> <p>(7)To encourage shareholders participating corporate governance, regulation of AGM is conducted, in addition, spokesman system and stock affair unit provide a communication channel for shareholders to express their opinions. Disclose status of Financial information and Business operation within the website.</p> <p>(8)To effectively enforce corporate governance and fulfill corporate social responsibility, the Bank has in place a set of Regulations Governing Donations, including political donation and donation to interested party and public interested group:</p> <p>1.Political Donations:None</p> <p>2. Interested Parties:</p> <p>a.E.SUN Volunteers Social Welfare and Charitable Foundation: NT\$ 50,362,349. (The donation includes the E.SUN World Card activity - the E.SUN Golden Seed Project - that is jointly carried out with E.SUN Bank and E.SUN Volunteers Foundation. A portion of the World Card annual fee and certain percentage of the spending made using the card is donated to the cause, for creating 100 libraries at elementary schools in remote areas.)</p> <p>3.Public Interested Group:</p> <p>(1)Taiwan SME Credit GuaranteeFund NT\$81,701,020.</p> <p>(2)Overseas Credit Guarantee Fund NT\$10,000,000.</p> <p>(3)Social rescue account of Tainan City Government NT\$10,000,000.</p> <p>(4)Taiwan Association of medical doctors NT\$5,352,480.</p> <p>(5)National Taiwan University NT\$5,000,000.</p> <p>(6)Nan Shan Life Charity Foundation NT\$3,927,901.</p> <p>(7)New Taipei City Chu Chi Association of nature and rural art promotion NT\$3,000,000.</p> <p>(8)Taitung County Government (typhoon rescue) NT\$3,000,000.</p> <p>(9)Taiwan bio-development foundation, TBF NT\$2,500,000.</p> <p>(10)National Cheng Chi University NT\$2,200,000.</p> <p>(11)Kaohsiung City Union Hospital NT\$1,400,000.</p> <p>(12)The Taiwan Association of Young Dreamer Alliance NT\$1,300,000.</p> <p>(13)Taipei City Government Sports Bureau NT\$1,000,000.</p> <p>(14)Yu Shan National Park NT\$800,000.</p> <p>(15)Others NT\$7,158,900.</p>	No Difference

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

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

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

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

3.5 Corporate Governance Guidelines and Regulations

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

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

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

3.7 Internal Control

3.7.1 Statement on Internal Control System

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

1 March, 2017

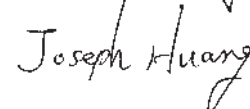
On behalf of E.SUN Commercial Bank, Ltd., we hereby declare that the Company, pursuant to the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries, did establish an internal control system and conduct risk management from January 1 through December 31, 2016. In the meantime, an impartial and independent entity was called in to conduct audit and report its findings to the Company's Audit Committee and Board of Directors on a regular basis. Regarding securities and insurance agent businesses, according to criteria for evaluation of internal control systems required by the "Criteria for Establishment of Internal Control Systems by Securities and Futures Service Enterprises" promulgated by the Securities and Futures Bureau of the Financial Supervisory Commission and "Regulations Governing the Implementation of Internal Control and Audit System and Business Solicitation System of Insurance Agent Companies and Insurance Broker Companies" promulgated by the Insurance Bureau of the Financial Supervisory Commission, our bank has carried out an evaluation of whether the design and implementation of our internal control system is effective. Based on a meticulous review, we affirm that all departments of the Company had been able to effectively enforce internal control and compliance-related measures during the said period, except for matters listed in the table attached below. This Statement will be an integral part of E.SUN Bank's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the aforementioned items to be disclosed will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Act.

To Financial Supervisory Commission

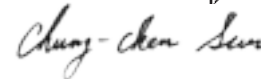
Chairman



President



General Auditor



Chief Compliance Officer



E.SUN Bank's Internal Control System—Items in Need of Improvement & Status of Improvement (Record Date: December 31, 2016)

Item in Need of Improvement	Corrective Measure	Scheduled Time of Completion
The Company was deemed in need of proper sales/business management, compliance practice and risk control system when providing derivative service.	The Company has implemented limits on "complex high-risk products" along with appropriate risk control measures, margin adjustment rules, and thresholds for mandatory closure of customers' positions. All of which have been approved by the board of directors.	Improvement already completed.
The Company is bound to comply with "Trust Association of R.O.C Notes on Real Estate Development Trust and Escrow Trust of Pre-sale Houses" when conducting real estate development trust or escrow trust services.	1. Notices are being sent to the subsidiary on a monthly basis since September 2016 to request for relevant information and audit report. Any non-compliant or uncorrected issues will be handled according to policy. 2. The Company has revised its practical manuals to include an escrow trust chapter along with compliance self-assessments to ensure compliance in this respect.	Improvement already completed.
Some employees were found to have kept customers' signed blank documents, which require rectification.	The case in question has been resolved and the subsidiary will exercise more intensive training and care in similar situations in the future.	Improvement already completed.
Hong Kong Branch The subsidiary bank must follow policies and monitor business operations of the borrower group when lending against special-purpose money trust investments placed by trustees.	The relevant operating procedures and documents have been revised. The subsidiary bank will exercise more stringent assessment of borrowers'/policyholders' assets, solvency and rationality of granted limits.	Improvement already completed.
Hong Kong Branch The subsidiary bank is required to develop a money laundering control system to identify and monitor suspicious money laundering transactions.	An anti-money laundering system (GAML) has been implemented for the Hong Kong Branch. Its monitoring parameters are configured based on the patterns of suspicious money laundering transactions announced by the authority.	Improvement already completed.
Hong Kong Branch Local branches are required to develop proper internal control procedures and internal audit practices when assisting overseas branches (subsidiaries) in the transmission of customers' data, signature verification and due diligence for business activities such as deposit, credit etc.	The subsidiary bank has established "E.SUN Bank Cross-border Due Diligence Guidelines" as an internal control policy, and included cross-border due diligence as part of its internal audit focuses.	Improvement already completed.
Hong Kong Branch Controls are needed to prevent overseas financial advisors from conducting financial services in Taiwan.	Operating rules have been revised to specifically outline the boundaries that all financial advisors are bound to comply. Branches are being inspected randomly with regards to this issue; reports are made to the head office on a quarterly basis.	Improvement already completed.
Hong Kong Branch Credit exposures to China are subject to comply with regulations; appropriate review systems must be adopted to ensure effective control over credit exposure in China.	The subsidiary bank has revised its "Notes on Credit Service in China" and now requires commercial invoices and trade documents to ascertain the true background of financed transactions. If documents do not meet requirements, the underlying exposure will be subjected to exposure control.	Improvement already completed.
Hong Kong Branch All foreign exchange accumulators transacted with customers must be properly assessed, categorized and provided for losses.	Assets have been properly assessed, categorized and provided for losses.	Improvement already completed.
Hong Kong Branch Sales invoice must be obtained from customers to support lending decision, while operational controls need to be implemented for assurance. Derivative trading limits should be granted at greater discretion, while hedging and trading positions need to be distinguished and covered with adequate margins. Asset portfolio requires better quality assessment, categorization, and more adequate loss provisions.	1. A "TMU Exposure Limit Worksheet" has been introduced to calculate whether the hedging limit is consistent with customer's actual foreign currency requirements. Meanwhile, trade limits granted by other banks are being taken into consideration to assess customer's approved limit. 2. The subsidiary bank has revised its "TMU Guidelines" to introduce more stringent review of approved limits and more adequate margin coverage.	Improvement already completed.
Hong Kong Branch Where loans are granted for investment purpose, the subsidiary bank is advised to exercise more stringent assessment of overall credit exposure, and closer monitoring on customer's use of capital to secure debt entitlements.	1. The subsidiary bank has revised its investment lending procedures to introduce more robust credit assessment and more stringent monitoring on the use of disbursed proceeds. 2. The head office now conducts random checks every six months to make sure that capital is used for the stated purpose.	Improvement already completed.
Hong Kong Branch The subsidiary bank should strictly enforce its business procedures when engaging TMU customers in CNY accumulator deals. Customers must be fully informed of product risks, and the process of which needs to be reviewed as part of internal audit. The subsidiary should exercise greater discretion when handling loss on valuation of customers' positions.	1. Hong Kong Branch has revised its "Notes on Derivative Trading" to better enforce head office policies. Furthermore, product descriptions have been amended to emphasize on risk disclosures concerning the offset of customers' losses. 2. The Bank has included extended deals as part of its audit focus on Hong Kong Branch.	Improvement already completed.
Hong Kong Branch The derivative limit assessment and approval procedures should be reviewed and supported by more robust margin calling practices.	The Bank has established derivative limit assessment and approval rules, and implemented more robust margin calling practices.	Improvement already completed.
Hong Kong Branch The customer due diligence process should take into consideration customer's money laundering risks, and utilize objective analyses and standards.	1. The Bank has implemented an anti-money laundering system (GAML) specifically for Hong Kong Branch that rates customers' money laundering risks using objective analyses and standards. 2. Hong Kong Branch has completed the update of its Customer Money Laundering Risk Assessment KYC Worksheet to comply with the requirements of relevant guidelines and regulations.	Improvement already completed.
Hong Kong Branch When reporting changes of local regulations, the subsidiary bank should emphasize on analyzing the impacts of key regulation changes, thereby allowing branches to minimize legal risks.	1. Hong Kong Branch expects to conduct a full-scale review of its anti-money laundering system and operating procedures in the first quarter of 2017. Internal policies will be amended where appropriate. 2. The subsidiary bank has enhanced its supervision and applied systematic control over offshore branches in regards to compliance with local regulations. Its practices and systems are updated on a timely basis to reflect the latest regulations.	Scheduled to be completed in the first quarter of 2017.

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

3.8 Legal Infraction and Punishment and Major Shortfalls and the State of Improvement over the Past Two Years

- (1) Litigation filed by prosecutors to E.SUN's managers or employees in the line of work: None.
- (2) Fines levied by the FSC for Regulatory Violations: None.
- (3) The Bank reprimanded by the FSC for deficiencies in business operations of the following:
 - (a) While undertaking marketing of derivative products, the Bank was found not properly execute marketing operation, business management and take note of the relevant compliance matters, and has not properly establish an appropriated risk management mechanism or effectively implement it. The competent authority issued an order for correction. The Bank would review the aforementioned deficiencies, edit relevant operational procedures and establish appropriate risk management mechanism, and fully implement them.
 - (b) It has been identified by the regulator for failure of compliance with Article 8 of the Trust Association of R.O.C. Guidelines for Members' Handling Pre-sale Housing Real Estate Development Trust and Price Trust Services concerning pre-sale housing development trust services of the Bank. Order of corrective measure has been issued by the competent authority. After examination of the foregoing deficiency in the Bank's business, the Bank has amended its practice handbooks in order to strengthen management operations, and has also strengthened its project control and legal compliance. The deficiencies have now been corrected.
- (4) The Bank disciplined by the FSC pursuant to Article 61-1 of the Banking Act: None.
- (5) Losses, if any, caused by corruption of personnel, serious accidents, or security incidents due to failure to comply with the Security Maintenance Requirements of Financial Institutions, of which the amount incurred separately or cumulatively during a given year exceeds NT\$50 million (where serious accidents refer to events of fraud, theft, misappropriation, and embezzlement of company assets, false transactions, forgery of certificates and securities, acceptance of rebate, natural disasters, external force, computer hacking, theft of data, and divulgence of trade secrets and customer information): None.
- (6) Other matters that require disclosure as designated by the FSC: None.

IV. Capital Overview



1. Shares and Dividends

1.1 Source of Capital

2016.03.30 Unit: thousand shares, NT\$ thousands

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2 Type of Shares

2016.03.30 Unit: Share

Type of Shares	Authorized Capital			Remark
	Issued Shares *	Un-issued Shares	Total Shares	
Common Shares	7,262,883,000	0	7,262,883,000	

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

1.3 Structure of Shareholders

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

1.4 Shareholding Distribution Status

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

1.5 List of Major Shareholders

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

1.6 Dividend Policy and Implementation Status

- (1) In order to achieve the goal of sound financial structure and to enhance the self-owned capital ratio, the policy of dividend distribution of the bank shall be primarily on the basis of stock dividend. In the event that at the year dividends proposed to be distributed the bank's BIS ratio after compilation of final financial statements is greater than the requirement by the regulatory agencies, the cash dividend may therefore be distributed but shall not be less than 10% of the total dividends. However, in case of the proposed distribution of cash dividend lower than NT\$0.1 per share, the bank may, at its sole discretion, opt to make such distribution out of stock dividends. Before the legal reserve equals the total capital amount, the maximum cash distribution of profit shall not exceed fifteen percent of the total paid-up capital amount.
- (2) The proposed dividends payout for the 2016 financial year is NT\$1.249 per share, in which cash dividend is NT\$0.636 and stock dividend is NT\$0.613.

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

1.8 Employee Remuneration and Compensation for Directors

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

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

- (1) Employee bonus is NT\$475,960,835 (Actual distributed amount is NT\$61,847 less) and Directors' compensation is NT\$80,000,000. (Actual distributed: NT\$80,000,000)
- (2) Ratio between proposed stock remuneration given out to employees and capital increments from retained earnings: All distributed as cash bonus.

1.10 Share Repurchase: None.

2. Preferred Shares Issuance: None.

3. GDR Issuance: None.

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

V. Operational Highlights



1. Business Activities

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

1.1 Corporate Banking

(1)Corporate Lending

As far as its lending policy is concerned, the Bank gives priority to identifying clients with sound operations and strong credit records as well as continuously strengthening risk control capabilities and enhancing asset quality. At the end of 2016, the outstanding balance of corporate lending stood at NT\$552,276 million, representing 49.86% of the Bank's total loan portfolio and a NT\$43,212 million increase from a year earlier. Of the year's corporate loans, 39% were extended to the manufacturing industry, 19% to wholesalers and retailers, and 15% to the financial, insurance, and real estate sectors.

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

(2)Foreign Exchange

We have relied on our robust infrastructure and core payment platform developed in-house to

establish a fully automated, real-time, globally-competitive payment system that is able to respond to the market's fast-paced changes. We spearheaded introduction of the "E.SUN Global Pass" in an exclusive partnership with PayPal—the world's largest third party payment service—and this pioneering digital cross-border payment system that was honored as "Taiwan's best payment method (with PayPal)" by The Asian Banker and received Timetric's "Business Contribution Award (foreign exchange)" in 2016. We hope to rely on integration of virtual and physical channels to make us a leader in innovative cross-border payment methods.

1.2 Consumer Banking

(1)Deposit

At the end of 2016, the Bank's outstanding balance of deposits came in at NT\$1,542,557 million, a rise of NT\$913,948 million (6.57%) from a year earlier. Demand deposits amounted to NT\$838,569 million, accounting for 59% of all deposits. Time deposits amounted to NT\$628,609 million, 41% of all deposits. The structure of deposits is sound, and its amount remains on the rise.

(2)Mortgage Loans

The Bank's mortgage loan balance was NT\$464.053 billion as of the end of December 2016. Treating risk control as priority, we pursue the steady improvement of both quality and quantity in the development of our mortgage loan business by offering customers all-around financial services. Our mortgage loan development focuses on non-concentrated loans, and we look forward to using our lending business to achieve synergy through integrated marketing.

The number of real estate transactions has set a historic low in 2016. The real estate market

remained depressed, and correction of real estate prices occurred in some areas. As a consequence, we will continue to implement risk differential pricing, and actively target high-value customer groups, in order to maintain excellent credit asset quality.

(3)Unsecured Personal Loans

Risk control is the most important part of our lending business, and we are steadily expanding our loan balance. We employ a multidimensional rating model in conjunction with the extensive experience accumulated by our experts to accurately identify customer risk and implement differential pricing. We are continuing to promote collateral security products; apart from enhancing the security of the bank's creditor's rights, customers can make full use of the value of their real estate in order to wield funds with greater flexibility.

Responding to the trend toward digital services, we are relying on the integration of our virtual and physical channels to enable customers to access and complete all loan procedures online. We further improve our operating processes in order to offer customers more convenient, simpler, faster, and more customized service, which has created a good customer experience.

With regard to marketing, we will continue to use big data analysis to understand the behavior and potential needs of existing customers, perform precision marketing to a wide range of customers, and continue to introduce seasonal marketing activities. This will effectively boost our customer penetration rate and maintain our growth momentum.

(4)Micro SMEs

Serving micro SMEs provides branches with a perfect platform to their respective neighborhoods.

Like a concentric center, branches are well-placed to maximize the value of localized business. With lending as a point of departure, they can move on to expand to salary transfer, cash flow, and other dealings with micro SMEs, thereby offering them a complete range of financial services and acting as their best advisor on business growth.

In order to enhance market reputation, our headquarters will actively target small business loans, and we will also negotiate cooperative arrangements with platform firms, tourist enterprises, and chain enterprises in an effort to use our digital platform and new business models to achieve a favorable result among consumers, companies, and the bank.

1.3 Wealth Management

Apart from attentively safeguarding customers' tangible wealth, we further hope to help customers manage their priceless wealth. We were consequently awarded the "Best Wealth Management Award" in the 2016 Taiwan Banking and Finance Best Practice Awards by the Taiwan Academy of Banking and Finance in 2016, which was a great honor and affirmation of E.SUN's dedication to its customers.

(1)Mutual Funds

Investment markets were beset with "black swan" events in 2016, and dramatic fluctuations continued unabated. We have relied on our professional financial management in conjunction with real-time response mechanisms addressing major events to seize key opportunities, assist customers in adjusting their asset portfolios on the fly, and introduce products offering nimble operations to both bulls and bears and attracting investment from foreign institutional investors. These actions have reduced fluctuations in our customers' portfolios and safeguarded customers' assets. As of the end of 2016, the Bank's overseas

trust balance was approximately NT\$124.407 billion, and its domestic trust balance was approximately 49.383 billion.

(2) Bancassurance

The Bank received the competent authority's approval to offer bancassurance service on March 8, 2016, and formally began offering bancassurance on March 28 of the same year. The scope of our bancassurance services includes the two major categories of personal insurance and property insurance. Our personal insurance includes life insurance, health insurance, annuities and injury insurance. In order to fulfill our corporate social responsibilities and respond to market development trends, apart from providing long-term care insurance and micro-policies, we have also introduced many exclusive types of insurance. Our property insurance includes auto insurance, fire insurance, liability insurance, and various types of industrial and commercial insurance. Our all-round product lineup ensures that customers enjoy comprehensive asset allocation and insurance planning service.

(3) Trust and Related Businesses

As people's mindsets change over time, trust planning is increasingly gaining attention in Taiwan. Standing by the principles of professionalism, integrity, and reliability, the Bank is committed to providing innovative, complete, and comprehensive trust services. In terms of personal trust services, E.SUN Bank took the lead to introduce insurance trust that combines long-term care and, according to one's life planning, offers options concerning children's education, post-retirement care, insurance money, and execution of wills, thereby making possible better-rounded planning of family wealth. Trust services meant for institutional clients cover advance receipts (gift

coupons), employee shares/savings, restricted stock, realty development, custodianship, certification, and issuance of corporate bonds. Also offered are tailor-made trust services designed for such purposes as supplementing charitable initiatives or protecting the security of transactions.

As of the end of 2016, the outstanding balance of assets under trust stood at NT\$411,659million, a year-on-year increase of NT\$24,063million. Assets under custodianship in the form of securities stood at NT\$57,773 million, while asset funds under custodianship in special accounts amounted to NT\$210,774 million.

1.4 Digital Banking

The digital banking is categorized into three segments according to functions of business:

(1) Digital Payments

We have concurrently developed online and offline payment, cross-border payment, mobile payment, and Internet of Things payment methods, and have jointly created new business models with our strategic partners in Taiwan and abroad.

(2) Digital Marketing

Addressing digital customers, E.SUN relies on its big data analytics to collect customers' online actions involving the Bank and on the Internet at large. We hope to increase customer stickiness by gaining a better understanding of customers and analyzing customer needs.

(3) Digital Channels

We are employing the "Internet+" concept to create new digital financial products. We are gradually offering a complete range of digital products through website, online banking, and mobile banking channels in pace with the authorization of Bank 3.0 online services by

Taiwan's financial regulatory agency. We are also creating value for digital customers via a four-stage cycle of contact, experience, interaction, and transactions.

1.5 Credit Card and Payment

At the end of 2016, E.SUN Bank had 4.29 million (9% growth) credit cards in issuance, making it the third-largest card issuer in Taiwan. With 2.99 million active cards and NT\$300.1 billion consumption on the cards in 2016, all indicators beating market average (growth of issued card 6%, active card 7%, and consumption amount 8%) Meanwhile, E.SUN was able to keep up asset quality as its NPL ratio of 0.26% against credit card revolving debts was superior to the market average of 0.27%.

In order to create business value, and taking our customers' needs as a starting point, we are continuing to promote card usage and "wallet share" in accordance with different customer segments. In the premium credit card sector, E.SUN is now ranked No. 1 in both the number of top-tier credit card market in circulation and cardholder spending. Having issued more than 3.7 million co-brand EasyCards and 208 thousand co-brand icash cards. E.SUN is the largest issuing bank, also the only bank that offers cobrand card with the major 4 electronic stored value cards providers.

1.6. Investment

The book value of the investments by E.SUN Bank at the end of 2016 stood at NT\$ 12,648 million:

1. The book value of asset at cost method is total of NTD\$533 million. Taipei Forex Inc. (0.81%), Taiwan Futures Exchange (0.45%), Financial Information Service (2.28%), Taiwan Asset Management (0.57%), Taiwan Financial Asset Service (2.94%), Sunny Asset Management

Corp. (4.35%), Taiwan Incubator SME Development Corp. (3.44%), Taiwan Finance Corporation (0.41%), EASYCARD Investment Holdings Corporation (4.82%), Alliance Digital Tech Co. (2.16%), Taiwan Mobile Payment Co. (3.00%).

2. The book value of asset at equity method is total of NTD\$12,115 million. Percentage of share held: 75 % shareholdings in Cambodia's Union Commercial Plc ; 100% shareholdings in E.SUN Bank (China) Ltd., and Bank Pro E-Service Technology (61.67%).

2. Business Plan

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

2.1 Corporate Banking

- (1) Further expand the Bank's customer base by winning over businesses engaging in external trade while deepening relations with existing customers. Endorse government policy by supporting SMEs and cultural and creative ventures, in turn offering fresh momentum for corporate growth.
- (2) Draw on such external resources as the SME Credit Guarantee Fund and world-class insurers to further strengthen risk control at large and risk management for overseas lending, thereby keeping up asset quality.
- (3) In conjunction with its expanding overseas operations and cross border service, E.SUN will use information technology and expertise as a foundation, integrate the resource from our FHC, and its brand name and professional workforce as the core of its efforts to meet the service needs of customers.
- (4) Continue to provide a comprehensive range of diverse financial products and services, and helping E.SUN become best partner for companies to succeed.

2.2 Consumer Banking

- (1) Channel operation and management

We completed the establishment of 137 branches as of 2016. In accordance with our business development plan, we are nimbly allocating resources, expanding our financial services scope, and building a comprehensive, close-knit financial service network.

- (2) Giving our channels a new look

We established E.SUN Commercial Bank's digital flagship Taipei branch in 2016, and cleverly integrated various kinds of existing digital services

and innovative financial products in a novel setting. As a result, customers can enjoy convenient digital financial services, while also experiencing advanced, innovative trends.

- (3) Improving self-service financial and service procedures

Apart from use of existing financial equipment and deployment of domestic and foreign channels, we are using innovative technologies to enhance service efficiency and save customers' time. We are further relying on paperless operations and the digitization of many kinds of financial application forms to promote green finance, and are continuing to optimize the quality of our self-service financial environment and provide superior financial service.

- (4) Strengthening risk control

Responding to rapid changes in the business environment, we have made risk control the core precondition of our business development efforts. From the marketing end to the credit granting end, we perform effective lending management and mid-term loan management, which has enabled the stable expansion of our lending business, and our strong risk control has stimulated profit growth.

2.3 Wealth Management

- (1) E.SUN Bank is committed to providing customers with reliable wealth management services. Putting in place a team of high-caliber professionals and a well-rounded mechanism for responding to major incidents, the Bank is set to help customers effectively balance asset allocation in a timely fashion based on economic cycles and market trends, thereby ensuring customer satisfaction and maximizing customer value.
- (2) In the mutual fund sector, special attention will be paid to ensuring the Bank's status as the exclusive or first vendor of products that come with appealing features and conform to market trends. Emphasis will also be placed on introducing a greater variety of mutual funds that meet diverse customer needs and developing more innovative

trading features. The objective is to devise a smart investment mechanism that can provide customers with convenient wealth management services.

- (3) E.SUN has taken the lead to launch real-time services that allow customers to easily trade overseas ETFs and equities (U.S., Hong Kong, and Shanghai shares) online. A great variety of trust offerings are provided to help customers optimize their capital use and asset allocation. Meanwhile, a portfolio management mechanism is put in place to help customers keep up to date with their investments and offer other after sale services.
- (4) Take the lead to innovate financial products and services. Give priority to developing services in relation to overseas bonds and offshore structured products. Offer complete, diverse products and customized services to win over high-asset customers. Across-the-board wealth management services are crucial to making a premium customer experience.
- (5) Further innovation will be undertaken with a view to offering more convenient trust services. As digital banking increasingly becomes the norm, E.SUN is set to take customer needs as a point of departure and strengthen technological applications, thereby offering a brand-new customer experience for trusts of advance receipts and electronic payments among others. Similarly, Taiwan's ongoing demographic development also necessitates the development of nursing and care trust services. To sum up, E.SUN is set to offer a full spectrum of trust services, thereby creating a win-win situation for all parties concerned.
- (6) E.SUN has taken the lead to launch a mobile app for provision of wealth management consultancy. Thus empowered, customers have instant access to digital consultancy on how to manage their wealth more wisely. In the days ahead, the Bank is ready to further refine and expand its digital wealth management services by drawing on the latest technology available and suitable for the purpose.

2.4 Digital Banking

Currently the Bank's digital banking business is divided into the following three dimensions by function:

(1) Digital Payment

Priority is given to developing innovative, cross-border, and mobile payments. Create new business models by working with local and offshore strategic partners.

(2) Digital Marketing

Draw on the Bank's big data analytics to learn more about customers' online behavior while dealing with the Bank or otherwise. In other words, understand customers and analyze their needs in order to foster customer loyalty.

(3) Digital Channel

Take "Internet+" as a point of departure for the development of digital banking products. Keep up with the local competent authority's pace of deregulating Bank 3.0 (online) services while developing a full spectrum of digital offerings. Deliver services through the Bank's official website as well as online and mobile banking platforms. Create customer value by means of contact, experience, interaction, and transaction.

2.5 Credit Card and Payment Services

- (1) We use big data analysis to develop product maps and hold a variety of credit card use activities in accordance with customers' preferences, boosting customers' card use and creating an excellent customer experience.
- (2) We continue to develop our discount store and diversified acquisition services, and seek to provide customers and merchants win-win payment models creating the greatest possible value.
- (3) Combining FinTech and innovative thinking, we are actively developing Digital Payments, which will expand and diversify payment settings, and are continuing to optimize our user experience. At the same time, we are also promoting product innovation and helping build a secure and convenient new payment living circles.
- (4) We are improving our system model and operating procedures, and performing effective mid- and back-office management, in order to achieve risk optimization.

3. Market Analysis

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

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

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



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

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

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

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

Emerging market countries are generally suffering from weak economic conditions. After several years

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

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

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

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

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

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

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

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

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

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

Spreading anti-globalism; a future full of uncertainty

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

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

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

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

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

2017. These trends will make the value of the US dollar difficult to predict this year.

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



4. Financial Products R&D and Business Status

Corporate Banking

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

Consumer Banking

With the development of technology and arrival of the digital age, E.SUN Commercial Bank continues to set the pace in digital financial innovation, and is actively promoting digital services, including the introduction of such digital services as credit loans, online application for mortgages, online ID authentication, online loan approval, property appraisal, and credit line interest rate assessment. As a result of these services, customers can use E.SUN's digital platform to quickly and conveniently satisfy their needs. E.SUN has now opened a first "digital flagship branch" in Taipei, and has relied on big data and artificial intelligence to introduce the robot "little i." E.SUN is also combining technology with culture and art, and fusing its various existing digital services and innovative finance in the same setting. This has created an all-new service experience in an aesthetic environment.

Wealth Management

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

professional financial management services.

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



Digital Banking

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

(1)Bank 3.0

a.E-Lending: E.SUN draws on big data analytics to enable online applications for unsecured loans. It takes only three minutes to complete the entire procedure—loan calculation, loan application, identity verification, and loan activation—online.

b.E-Card: With this electronic service, customers can complete their online applications for credit cards in one minute.

c.New mobile banking apps: In accordance with the newest app trends, we have created a mobile banking platform with an all-round user experience. The app won many positive reviews and has significantly increased transaction volume.

(2)Innovative payment services

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

b.E.SUN-PayPal Worldwide: E.SUN's exclusive partnership with PayPal enables Taiwanese vendors to withdraw funds from the latter's accounts effortlessly.

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

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

Credit Card and Payment

a.In term of credit card and payment sector, an unusual aspect of E.SUN's World Mastercard is to be found in the E.SUN Golden Seed Project. Parts of cardholders' annual fees and general payments are used as donations toward setting up libraries for elementary schools in remote areas. As of end of 2016, E.SUN Bank has opened 110 libraries at the remote area, we will continue to execute related CSR activities and provide differentiated service to create VIP customers' value.

b.Our newly-introduced Happiness PLUS Titanium Card, together with our HappyCash stored value card and Happy Go points function, provides



female customers with exclusive benefits, ensuring that female cardholders feel fortunate and cared for.

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

d.We employ data analysis to capture customers' preferences, hold a wide array of credit card use activities, and continue to develop and manage our major channels. We use various channels to ensure effective contact with customers, which enables us to meet the needs of different customer types, and enhance customers' credit card use amount and frequency.

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

f.We are the leading issuer of stored value cards among banks in Taiwan. In particular, the E.SUN ETC Easy Card and E.SUN icash card can satisfy

users' need for small, convenient payments. We also employ UUPON and OPENPOINT points exchange activities to increase customer stickiness.

g. Use of credit cards as e-invoice carriers: We allow customers to use their credit cards to shop at shops that can store e-invoices, which not only avoids the need to print out invoices, but also lets consumers receive prize notifications from E.SUN Commercial Bank and helps make credit cards an integral part of customers' lives.

h. In the area of risk management, we have strengthened our credit risk management mechanisms, and realized the "four-eyes" principle. We have established a comprehensive, scientific model verification mechanism for the Bank's credit rating model, and use an independent framework and objective, reliable inspection methods to determine the validity of the Bank's credit ratings and quality of credit assets. We are continuing to improve the validity of our model and expand its use, and have hired external third parties to perform verification. With regard to the control of money laundering, which has always been an important international issue. In the wake of the 9/11 terrorist attacks in 2011, combating the financing of terrorism became a major international trend in the control of money laundering. Money laundering and the financing of terrorist activities have profoundly negative effects on society, the economy, and the entire financial system. If the financial system of any particular country or region is unstable, and lacks effective financial oversight and implementation, the risk and negative impact of money laundering and terrorist funding activities can easily increase, including such harmful effects as increased crime and corruption, lowering national prestige, and increased social costs. Furthermore, money laundering and terrorist financing activities can increase the financial sector's operating risk, legal risk, reputation risk, and even funds concentration risk, posing great threats to sound development. Because of this, in compliance with international guidelines and the requirements of the competent authority in Taiwan, this bank is strengthening KYC procedures, implementing due diligence reviews of customers, and preventing wrongdoers

from using the Bank's financial products and services to conduct money laundering or to finance terrorist activities.

Risk management

In the area of risk management, we have strengthened our credit risk management mechanisms, and realized the "four-eyes" principle. We have established a comprehensive, scientific model verification mechanism for the Bank's credit rating model, and use an independent framework and objective, reliable inspection methods to determine the validity of the Bank's credit ratings and quality of credit assets. We are continuing to improve the validity of our model and expand its use, and have hired external third parties to perform verification. With regard to the control of money laundering, which has always been an important international issue. In the wake of the 9/11 terrorist attacks in 2011, combating the financing of terrorism became a major international trend in the control of money laundering. Money laundering and the financing of terrorist activities have profoundly negative effects on society, the economy, and the entire financial system. If the financial system of any particular country or region is unstable, and lacks effective financial oversight and implementation, the risk and negative impact of money laundering and terrorist funding activities can easily increase, including such harmful effects as increased crime and corruption, lowering national prestige, and increased social costs. Furthermore, money laundering and terrorist financing activities can increase the financial sector's operating risk, legal risk, reputation risk, and even funds concentration risk, posing great threats to sound development. Because of this, in compliance with international guidelines and the requirements of the competent authority in Taiwan, this bank is strengthening KYC procedures, implementing due diligence reviews of customers, and preventing wrongdoers from using the Bank's financial products and services to conduct money laundering or to finance terrorist activities.

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

Item	2016	2015
R&D Expenditures	246,469	120,547

5. Human Resource

Setting a Cruise for New Milestones in Excellence

Facing the age of globalization and the "fast-moving competition economy," E.SUN is relying on the training of financial personnel possessing original thinking and an international outlook to create a business model employing innovation to achieve success, which will be essential to the Bank's competitiveness. Our comprehensive training system provides every E.SUN employee with convenient, diversified methods and opportunities to learn, enabling colleagues to focus on key aspects, cultivating strong executive skills. It leads our colleagues to craft a high-performance and happy winners' team. E.SUN will soar with the spreading wings that represent execution and innovation and sail away to the ultimate milestone of excellence. We aim to become the first bank of excellence in Taiwan, and making E.SUN the favorite bank to all employees, customers, and Taiwan.

Leadership and transmission of values: A Second Happy Home for E.SUN People

During 2016, the Bank held a total of 291 internal education and training classes, and sent personnel to participate in 562 training sessions held by external financial professional organizations. As a result, our colleagues took part in training a total of 60,262 person-times. On average, each colleague participated in 7.1 training sessions. Our personnel can rely on our systematic, progressive learning development system to follow their career development paths, and by working and growing together, become E.SUN's seeds of hope.

Thanks to the rapid growth of our business in recent years, as well as our vigorous recruiting of young personnel specializing in different areas, the average age of employees at E.SUN Commercial Bank is currently only 31.6, and 21.2% of employees are graduates of Taiwan's ten top universities, including



National Taiwan University, National Chengchi University, National Tsinghua University, National Chiao Tung University, National Cheng Kung University, and Sun Yat-Sen University. During the most recent five years, 23% of supervisory personnel receiving promotion to manager were under the age of 40, giving us an outstanding cohort of younger-generation managers.

Leadership and transmission of values are the starting points of corporate sustainability, management and talent are the keys to lasting corporate success. Cultivating and supporting our outstanding personnel is our pledge to our employees, and is also our most important responsibility. Every employee is also a treasured member of the E.SUN family. E.SUN colleagues care for each other, share each other's emotional burdens, and jointly create a working environment that is like a happy and harmonious second home. We rely on the members of our management team, supervisors, and "mid-level officers" to set a personal example, and colleagues' learning and practice is spontaneously internalizing our corporate culture as part of their DNA. As long as everyone shares the same goals, and maintains the same business philosophy and vision, our cohesiveness will help us continue to improve. As we pass the baton to new generations, we will grow even better.

5.1 E.SUN Bank Human Resource information

Item \ Year		2017.3.30	2016	2015
No. of Employees		8,186	8,197	7,841
Average Age		31.8	31.6	31.3
Average Years of Service		6.9	6.8	6.5
Educational Background (%)	Master's	23.2	23.1	21.9
	Bachelor's	71.3	71.3	72
	College	4.8	4.9	5.3
	High School (Vocational)	0.7	0.7	0.8
Number of Professional License	Bank	23,723	23,227	22,376
	Insurance	9,151	9,023	8,540
	Security	7,065	7,003	6,860
	Others	501	486	452

5.2 Advanced Training for Employees

- (1) In accordance with its employee training guidelines, E.SUN arranges training and education opportunities for its employees each year.
- (2) Based on the Bank's employee training and study guidelines, the supervisors in each department select employees to attend training courses or workshops either in Taiwan or overseas.
- (3) In 2016, the Bank offered 291 classes under its internal training program and sent employees to attend another 562 classes organized by other specialized institutions. Combined, attendees totaled 60,262.
- (4) Education and training expenses amounted to 0.9% of total revenue in 2016.

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

The number of non-managerial level staff was 7,426, their average expense for welfare were NT\$1.13 million per person, which was NT\$128,411 thousand more comparing to 2015, a 12.82% increase in aggregate expense for welfare.

5.4 Advocacy and Implementation of Employee Behavior and Ethics Code Concepts

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

6. Corporate Responsibility and Ethics

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

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

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



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

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

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

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

needed. We will continue to plant the seeds of love and concern throughout the country, and ensure that E.SUN volunteers can achieve even greater results!

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

7. Information of Environmental Expenses.

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



8. Employee Relations

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

8.1 Employee benefit measures and implementation:

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

8.2 Retirement system and state of actual implementation

In accordance with the Labor Standards

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

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

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

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

None.

Work environment and employee personal safety protection measures

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

VI. Financial Information



Contents

Contents	56
1. Condensed Financial Statements from 2013 to 2016	57
(1) Condensed Balance Sheet (Consolidated)	57
(2) Condensed Statement of Comprehensive Income (Consolidated)	58
(3) Condensed Balance Sheet (Individual)	59
(4) Condensed Statement of Comprehensive Income (Individual)	60
(5) Condensed Balance Sheet – ROC GAAP	61
(6) Condensed Statement of Income – ROC GAAP	62
2. CPAs' Auditing Opinion from 2012 to 2016	62
3. Financial Analysis from 2013 to 2016	63
(1) Financial Analysis	63
(2) Financial Analysis – ROC GAAP	67
(3) Capital Adequacy Ratio	68
(4) Capital Adequacy Ratio – ROC GAAP	69
4. Audit Committee Report	70

1. Condensed Financial Statements from 2013~2016

(1) Condensed Balance Sheet (Consolidated)

Unit NT\$1,000

Item	Year	Financial data 2013-2016 (Note1)				As of February 28, 2017 (Note 2)
		2016(Note 3)	2015 (Note 4)	2014 (Note 5)	2013 (Note 6)	
Cash and cash equivalents, due from the central bank and call loans to other banks		99,446,114	103,947,460	89,599,108	79,225,351	115,949,361
Financial assets at fair value through profit or loss		366,077,137	348,549,110	291,623,957	283,198,494	377,543,974
Available-for-sale financial assets		141,099,283	129,776,329	84,815,997	71,157,160	152,591,865
Derivative financial assets for hedging		0	0	0	0	0
Securities purchased under resell agreements		173,470	896,844	152,758	0	70,777
Receivables, net		75,992,232	71,298,309	65,391,506	56,093,380	72,308,844
Current tax assets		0	0	138,082	159,549	9,887
Assets held for sale, net		0	0	0	0	0
Discounts and loans, net		1,118,148,669	1,021,994,720	934,613,524	828,238,170	1,124,175,724
Held-to-maturity financial assets, net		3,616,960	5,289,839	5,915,792	8,593,699	3,194,369
Investments accounted for using equity method, net		0	0	0	0	0
Restricted assets		0	0	0	0	0
Other financial assets, net		27,301,621	40,563,130	49,961,102	15,499,801	1,763,690
Properties and equipment, net		25,785,381	26,117,062	20,247,436	18,486,668	25,903,822
Investment properties, net		2,295,788	755,735	923,833	1,057,348	2,224,833
Intangible assets		6,162,335	5,881,172	5,622,067	5,457,944	6,067,170
Deferred tax assets, net		423,706	484,248	113,386	181,998	515,639
Other assets		3,608,695	4,847,412	2,825,666	1,563,680	25,206,299
Total assets		1,870,131,391	1,760,401,370	1,551,944,214	1,368,913,242	1,907,526,254
Due to the Central Bank and other banks		52,516,006	71,170,130	58,199,621	47,645,621	91,313,338
Funds borrowed from the Central Bank and other banks		0	0	0	0	0
Financial liabilities at fair value through profit or loss		42,091,703	35,836,236	22,494,142	5,838,296	40,759,731
Derivative financial liabilities for hedging		0	0	0	0	0
Securities sold under repurchase agreements		8,881,723	8,034,391	13,117,523	6,254,291	10,859,878
Payables		23,638,238	18,073,164	18,261,090	15,554,501	26,077,008
Current tax liabilities		1,235,474	890,912	863,108	409,930	1,519,768
Liabilities directly associated with assets held for sale		0	0	0	0	0
Deposits and remittances		1,559,551,047	1,459,086,105	1,284,727,612	1,157,482,350	1,548,408,852
Bonds payable		42,250,000	44,950,000	43,800,000	47,500,000	41,752,040
Preferred stock liabilities		0	0	0	0	0
Other financial liabilities		9,654,553	1,864,035	2,349,300	2,195,311	13,591,023
Provisions		417,808	471,382	313,599	380,251	411,542
Deferred tax liabilities		924,744	1,260,329	781,528	745,553	882,198
Other liabilities		1,935,565	1,639,584	1,528,846	1,452,548	2,344,513
Total liabilities	Before distribution	1,743,096,861	1,643,276,268	1,446,436,369	1,285,458,652	1,777,919,891
	After distribution	(Note3)	1,646,130,536	1,449,572,305	1,287,046,652	(Note2)
Equity attributable to owners of the Company		126,370,891	116,391,310	104,722,892	82,750,226	128,831,341
Retained earnings	Before distribution	72,628,830	66,840,000	61,360,000	49,850,000	72,628,830
	After distribution	(Note3)	72,187,000	65,440,000	54,200,000	(Note2)
Other equity		19,837,781	19,139,073	17,825,058	12,573,696	19,896,441
Total equity	Before distribution	33,861,600	29,012,240	24,505,503	20,170,387	36,370,715
	After distribution	(Note3)	20,810,972	17,289,567	14,232,387	(Note2)
Other equity		42,680	1,399,997	1,032,331	156,143	(64,645)
Treasury stock		0	0	0	0	0
Non-controlling interests		663,639	733,792	784,953	704,364	775,022
Total equity	Before distribution	127,034,530	117,125,102	105,507,845	83,454,590	129,606,363
	After distribution	(Note3)	114,270,834	102,371,909	81,866,590	(Note2)

Note1: Based on audited financial statements.

Note2: Financial figures as of February 28, 2017 are preliminary figures.

Note3: Earnings distribution of the year (ended February 28) 2016 shall be resolved in the shareholder's meeting.

Note4: The 2015 Financial data were adopted from the CPA report of year 2015.

Note5: The 2014 Financial data were adopted from the CPA report of year 2014.

Note6: The 2013 Financial data were adopted from the CPA report of year 2013.

(2) Condensed Statement of Comprehensive Income (Consolidated)

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

Item	Year	Financial data 2013-2016 (Note 1)				As of February 28, 2017 (Note 2)
		2016	2015 (Note 3)	2014 (Note 4)	2013 (Note 5)	
Interest revenue		29,530,082	29,636,188	26,830,870	22,330,735	4,948,871
Interest expenses		(11,111,075)	(12,385,430)	(11,544,801)	(9,443,827)	(1,900,595)
Net interest		18,419,007	17,250,758	15,286,069	12,886,908	3,048,276
Net revenues and gains other than interest		21,858,055	18,700,844	15,402,392	13,072,553	3,384,593
Total net revenues		40,277,062	35,951,602	30,688,461	25,959,461	6,432,869
Bad-debt expenses and provision for losses on guarantees		(3,462,064)	(3,565,789)	(2,033,689)	(1,706,514)	(63,699)
Operating Expenses		(21,383,523)	(18,622,875)	(16,560,024)	(13,725,279)	(3,493,067)
Income before income tax from continuing operations		15,431,475	13,762,938	12,094,748	10,527,668	2,876,103
Income tax (expenses) benefit		(2,171,365)	(1,791,726)	(1,813,652)	(1,680,158)	(364,177)
Net income from continuing operation		13,260,110	11,971,212	10,281,096	8,847,510	2,511,926
Net income (loss) from discontinued operations		0	0	0	0	0
Net income		13,260,110	11,971,212	10,281,096	8,847,510	2,511,926
Other comprehensive income (loss) for the year, net of tax		(1,586,945)	322,036	990,475	147,390	(835,260)
Total comprehensive income		11,673,165	12,293,248	11,271,571	8,994,900	1,676,666
Net income attributable to owners of the Company		13,411,351	11,908,600	10,204,320	8,847,604	2,509,121
Net income attributable to non-controlling interests		(151,241)	62,612	76,776	(94)	2,805
Total comprehensive income attributable to owners of the Company		11,839,399	12,197,962	11,149,304	8,998,778	1,673,861
Total comprehensive income attributable to non-controlling interests		(166,234)	95,286	122,267	(3,878)	2,805
Earnings per share (New Taiwan Dollars)		1.85	1.80	1.74	1.77	0.35

Note 1: Based on audited financial statements.

Note 2: Financial figures as of February 28, 2017 are preliminary figures.

Note 3: The 2015 Financial data were adopted from the CPA report of year 2015.

Note 4: The 2014 Financial data were adopted from the CPA report of year 2014.

Note 5: The 2013 Financial data were adopted from the CPA report of year 2013.

(3) Condensed Balance Sheet (individual)

Unit: NT\$1,000

Item	Year	Financial data 2013-2016 (Note 1)				As of February 28, 2017 (Note 2)
		2016	2015 (Note 4)	2014 (Note 5)	2013 (Note 6)	
Cash and cash equivalents, due from the central bank and call loans to other banks		94,956,018	95,632,114	86,748,320	76,148,621	106,817,056
Financial assets at fair value through profit or loss		366,077,137	348,549,110	291,623,957	283,198,494	377,543,974
Available-for-sale financial assets		139,242,383	129,769,543	84,810,507	71,152,842	151,426,827
Derivative financial assets for hedging		0	0	0	0	0
Securities purchased under resell agreements		173,470	896,844	152,758	0	70,777
Receivables, net		75,532,825	71,276,123	65,358,517	56,058,752	71,665,014
Current tax assets		0	0	138,082	159,549	3,590
Assets held for sale, net		0	0	0	0	0
Discounts and loans, net		1,098,470,520	1,011,082,173	925,015,590	822,018,909	1,105,336,036
Held-to-maturity financial assets, net		2,475,695	5,289,839	5,915,792	8,593,699	2,089,868
Investments accounted for using equity method, net		12,115,047	7,772,615	2,465,142	2,065,612	11,577,537
Restricted assets		0	0	0	0	0
Other financial assets, net		23,301,821	40,061,689	50,748,101	15,495,332	1,759,092
Properties and equipment, net		23,525,277	21,878,315	19,737,442	18,140,151	23,736,077
Investment properties, net		389,753	728,099	923,833	1,057,348	389,390
Intangible assets		4,643,445	4,489,317	4,266,282	4,181,034	4,577,960
Deferred tax assets, net		238,352	456,760	113,045	181,626	319,648
Other assets		3,332,967	4,749,116	2,771,256	1,533,172	24,820,498
Total assets		1,844,474,710	1,742,631,657	1,540,788,624	1,359,985,141	1,882,133,344
Due to the Central Bank and other banks		51,419,462	69,855,781	57,462,374	47,037,326	87,838,006
Funds borrowed from the Central Bank and other banks		0	0	0	0	0
Financial liabilities at fair value through profit or loss		42,091,703	35,836,236	22,494,142	5,838,296	40,759,731
Derivative financial liabilities for hedging		0	0	0	0	0
Securities sold under repurchase agreements		8,881,723	8,034,391	13,117,523	6,254,291	10,859,878
Payables		23,037,241	17,763,734	17,972,885	15,409,929	25,484,252
Current tax liabilities		1,219,735	815,278	795,726	374,974	1,486,927
Liabilities directly associated with assets held for sale		0	0	0	0	0
Deposits and remittances		1,540,002,824	1,444,866,004	1,275,843,789	1,150,641,738	1,531,536,872
Bonds payable		42,250,000	44,950,000	43,800,000	47,500,000	42,250,000
Preferred stock liabilities		0	0	0	0	0
Other financial liabilities		6,200,448	761,451	1,966,844	1,927,219	9,793,513
Provisions		409,738	471,382	313,599	380,251	403,472
Deferred tax liabilities		913,495	1,254,631	780,031	743,421	877,191
Other liabilities		1,677,450	1,631,459	1,518,819	1,127,470	2,012,956
Total liabilities	Before distribution	1,718,103,819	1,626,240,347	1,436,065,732	1,277,234,915	1,753,302,798
	After distribution	(Note 3)	1,629,094,615	1,439,201,668	1,278,822,915	(Note 3)
Equity attributable to owners of the Company		126,370,891	116,391,310	104,722,892	82,750,226	128,830,547
Capital stock	Before distribution	72,628,830	66,840,000	61,360,000	49,850,000	72,628,830
	After distribution	(Note 3)	72,187,000	65,440,000	54,200,000	(Note 3)
Capital surplus		19,837,781	19,139,073	17,825,058	12,573,696	19,896,441
Retained earnings	Before distribution	33,861,600	29,012,240	24,505,503	20,170,387	36,372,133
	After distribution	(Note 3)	20,810,972	17,289,567	14,232,387	(Note 3)
Other equity		42,680	1,399,997	1,032,331	156,143	(66,857)
Treasury stock		0	0	0	0	0
Non-controlling interests		0	0	0	0	0
Total equity	Before distribution	126,370,891	116,391,310	104,722,892	82,750,226	128,830,547
	After distribution	(Note 3)	113,537,042	101,586,956	81,162,226	(Note 3)

Note 1: Based on audited financial statements.

Note 2: Financial figures as of February 28, 2017 are preliminary figures.

Note 3: Earnings distribution of the year (ended February 28) 2016 shall be resolved in the shareholder's meeting.

Note 4: The 2015 Financial data were adopted from the CPA report of year 2015.

Note 5: The 2014 Financial data were adopted from the CPA report of year 2014.

Note 6: The 2013 Financial data were adopted from the CPA report of year 2013.

(4) Condensed Statement of Comprehensive Income (Individual)

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

Item	Year	Financial data 2013-2016 (Note 1)				As of February 28, 2017 (Note 2)
		2016	2015 (Note 3)	2014 (Note 4)	2013 (Note 5)	
Interest revenue		27,972,962	28,556,372	26,084,131	22,121,594	4,710,270
Interest expense		(10,390,621)	(11,908,824)	(11,201,430)	(9,343,458)	(1,791,374)
Net interest		17,582,341	16,647,548	14,882,701	12,778,136	2,918,896
Net revenues and gains other than interest		20,912,978	18,591,843	15,428,592	13,020,825	3,322,953
Total net revenues		38,495,319	35,239,391	30,311,293	25,798,961	6,241,849
Bad-debt expenses and provision for losses on guarantees(Note 3)		(2,364,936)	(3,482,751)	(2,033,204)	(1,653,829)	(47,418)
Operating Expenses		(20,412,394)	(18,106,068)	(16,323,527)	(13,631,177)	(3,314,161)
Income before income tax from continuing operations		15,717,989	13,650,572	11,954,562	10,513,955	2,880,270
Income tax (expense) benefit		(2,306,638)	(1,741,972)	(1,750,242)	(1,666,351)	(369,731)
Net income from continuing operation		13,411,351	11,908,600	10,204,320	8,847,604	2,510,539
Net income (loss) from discontinued operations		0	0	0	0	0
Net income (loss)		13,411,351	11,908,600	10,204,320	8,847,604	2,510,539
Other comprehensive income for the year, net of tax		(1,571,952)	289,362	994,984	151,174	(90,545)
Total comprehensive income		11,839,399	12,197,962	11,149,304	8,998,778	2,419,994
Net income attributable to owners of the Company		13,411,351	11,908,600	10,204,320	8,847,604	2,510,539
Net income attributable to non-controlling interests		0	0	0	0	0
Total comprehensive income attributable to owners of the Company		11,839,399	12,197,962	11,149,304	8,998,778	2,419,994
Total comprehensive income attributable to non-controlling interests		0	0	0	0	0
Earnings per share (New Taiwan Dollars)		1.85	1.80	1.74	1.77	0.35

Note 1: Based on audited financial statements.

Note 2: From January 1, 2017 to February 28 the financial information are preliminary figures.

Note 3: The 2015 Financial data were adopted from the CPA report of year 2015.

Note 4: The 2014 Financial data were adopted from the CPA report of year 2014.

Note 5: The 2013 Financial data were adopted from the CPA report of year 2013.

(5) Condensed Balance Sheet – ROC GAAP

Unit:NT\$1,000

Item	Year	Financial data for the most recent five years (Note)	
		2012	
Cash and cash equivalents, due from the central bank and call loans to other banks		78,924,090	
Financial assets at fair value through profit or loss		61,142,893	
Securities purchased under resell agreements		210,893	
Available-for-sale financial assets		76,155,007	
Discounts and loans, net		735,406,720	
Receivables, net		44,304,823	
Held-to-maturity financial assets		211,168,563	
Investments accounted for using equity method, net		0	
Properties		16,373,001	
Intangible assets		4,137,558	
Other financial assets		4,392,491	
Other assets, net		3,672,695	
Total assets		1,235,888,704	
Due to the Central Bank and other banks		46,652,824	
Deposits and remittances		1,029,974,595	
Financial liabilities at fair value through profit or loss		6,971,106	
Securities sold under repurchase agreements		4,957,725	
Bank debentures		47,000,000	
Preferred stock liabilities		0	
Accrued pension liabilities		0	
Other financial liabilities		1,412,646	
Other liabilities		23,641,084	
Total liabilities	Before distribution	1,160,609,980	
	After distribution	1,161,926,255	
Capital stock	Before distribution	45,725,000	
	After distribution	49,850,000	
Capital surplus		12,345,531	
Retained earnings	Before distribution	17,130,721	
	After distribution	11,689,446	
Unrealized valuation gains (losses) on financial instruments		305,901	
Cumulative translation adjustments		(228,429)	
Total stockholders' equity	Before distribution	75,278,724	
	After distribution	73,962,449	

Note : Based on audited financial statements.

(6) Condensed Statement of Income – ROC GAAP

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

Item \ Year	Financial data for the most recent five years (Note)
	2012
Net interest	14,095,682
Total net revenues and gains other than interest	9,113,184
Bad-debt expenses	(2,019,923)
Operating expenses	(12,689,540)
Income before income tax from continuing operations	8,499,403
Net income from continuing operations	7,718,995
Net income from discontinuing operations	0
Net extraordinary gain(loss) (After income tax)	0
Cumulative effect of changes in accounting principles (After income tax)	0
Net income	7,718,995
Basic earnings per share (New Taiwan Dollars)	1.64

Note : Based on audited financial statements.

2.CPAs' Auditing Opinion from 2012 to 2016

Chen Li Chi, CPA, and Lai Kwan Chung, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the years of 2012, ended on December 31, and issued unqualified opinion reports ; Huang Jui Chan, CPA, and Lai Kwan Chung, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the year of 2013 to 2015, ended on December 31, and issued an unqualified opinion report ; Chen Yin Chou, CPA, and Huang Jui Chan, CPA, of Deloitte & Touche had examined the Financial Statements of E.SUN Bank for the year of 2016 ended on December 31, and issued an unqualified opinion report.

3. Financial Analysis from 2013 to 2016

(1) Financial Analysis

(Consolidated)

Unit: NT\$1,000

Item		Year	Financial data 2013-2016				As of February 28, 2017 (Note 5)
			2016	2015	2014	2013	
Operating ratio	Loan-to-Deposit Ratio (%)		72.69	70.97	73.61	72.40	73.58
	NPL ratio (%) (Note6)		0.19	0.13	0.18	0.20	0.20
	Ratio of interest expenses to average deposit(%)		0.61	0.78	0.80	0.73	0.59
	Ratio of interest revenues to average loans(%)		2.17	2.33	2.32	2.25	2.12
	Total assets turnover (Times)		0.02	0.02	0.02	0.02	0.02
	Average revenue per employee		4,808	4,650	4,341	3,951	4,412
	Average net income per employee		1,583	1,548	1,454	1,347	1,723
Profitability ratio	Ratio of return on tier 1 capital (%)		12.27	12.85	13.67	14.20	12.52
	Ratio of return on total assets (%)		0.73	0.72	0.70	0.68	0.80
	Ratio of return on equity (%)		10.81	10.76	10.88	11.18	11.75
	Profit margin ratio (%)		32.92	33.30	33.50	34.08	39.05
	Basic earnings per share (New Taiwan Dollars)		1.85	1.80	1.74	1.77	0.35
Financial structure	Ratio of debt to assets (%)		96.01	99.21	99.03	98.67	94.12
	Ratio of properties and equipment to shareholders' equity (%)		20.30	22.30	19.19	22.15	19.99
Ratio of growing	Ratio of assets growing (%) (Note8)		6.22	13.43	13.37	10.72	2.00
	Ratio of income growing (%) (Note9)		5.14	13.70	14.89	24.12	11.83
Cash Flow (Note 3)	Cash flow ratio (%) (Note10)		1.03	12.68	5.49	(Note 2)	1.03
	Cash flow Adequacy ratio (%) (Note10)		48.73	114.38	39.70	206.70	48.73
	Cash flow content ratio (%)		(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Ratio of liquidity preparation (%)			24.67	27.27	23.58	26.27	27.57
Secured loan balance of related-party			12,115,927	11,565,228	10,224,768	8,946,196	12,290,835
Ratio of secured loans balance of related-party			1.07	1.12	1.08	1.07	1.08
Operating Scale (Note 4)	Market share of assets (%)		3.73	3.46	3.16	3.03	3.80
	Market share of equity (%)		3.64	3.42	3.35	2.94	3.72
	Market share of deposit (%)		4.15	4.42	4.13	3.94	4.12
	Market share of assets loans (%)		4.07	4.26	4.03	3.74	4.09

Note 1: Based on audited financial statements.

Note 2: No further analysis to negative result of cash flows from investing activities.

Note 3: The Company used 2016 cash flow data to calculate cash flow ratios as of February 28, 2017.

Note 4: The Company used 2016 data as denominator to calculate operating scale as of February 28, 2017.

Note 5: Financial figures as of February 28, 2017 are preliminary figures.

Note 6: Increase in NPL due to increase in non-performing loan of secured corporate lending and mortgage.

Note 7: Decrease in percentage of interest expense/average deposit balance due to decrease of deposit related interest expense.

Note 8: Decrease in asset growth rate due to smaller increase in financial asset at fair value through P/L and available for sale than previous year.

Note 9: Decrease in profit growth rate due to rate cut and market.

Note 10: Decrease in cash flow ratio and cash flow adequacy ratio due to decrease of cash flow from operation caused by decrease in CBC and interbank deposit and financial liabilities at fair value through P/L.

1. Operating Ratio
 - (1) Loan-to-Deposit Ratio = Total loans / Total deposits
 - (2) NPL ratio = Nonperforming loans / Total loans
 - (3) Interest expense to average total deposits = Total interest expense / Average total deposit.
 - (4) Interest revenue to average total loans = Total interest revenue / Average total loans
 - (5) Total assets turnover rate = Net income / Total asset
 - (6) Average revenue per employee = Net revenues / Employee
 - (7) Average net income per employee = Net income / Employee
2. Profitability ratio
 - (1) Tier 1 capital ROE = Net income before tax / Average total tier 1 capital
 - (2) Ratio of return on total assets = Income after income tax / Average total assets
 - (3) Ratio of return on stockholders' equity = Income after income tax / Average stockholders' equity
 - (4) Profit margin ratio = Income after income tax / Net revenues
 - (5) Earnings per share = (Income after income tax - Dividends for preferred stocks) / Average issued shares
3. Financial structure
 - (1) Ratio of debt to assets = Total liabilities / Total assets
 - (2) Ratio of properties and equipment to shareholders' equity = Properties and equipment / Shareholders' equity.
4. Ratio of growing
 - (1) Ratio of assets growing = (Total assets - Last year total assets) / Last year total assets
 - (2) Ratio of income growing = (Income before income tax - Last year income before income tax) / Last year income before income tax
5. Analyses for liquidity
 - (1) Cash flow ratio = Net cash provided by operating activities / (Due to the bank + Commercial paper issued + Financial liabilities at fair value through profit or loss + Securities sold under repurchased agreements + Current portion of Payables)
 - (2) Cash flow adequacy ratio = Net cash provided by operating activities (from 2012 to 2016) / from 2012 to 2016 (capital expenditure + Cash dividends)
 - (3) Cash flow content ratio = Net cash provided by operating activities / Net cash provided by investing activities
6. Liquidity Reserve Ratio = Current assets required by the CBC / Liabilities for which the various current reserve shall be provided
7. Operating Scale
 - (1) Market share of assets = Total assets / Total assets of all financial institutions which are qualified in deposit and loan business.
 - (2) Market share of equity = Total stockholders' equity / Total stockholders' equity of all financial institutions which are qualified in deposit and loan business.
 - (3) Market share of deposit (%) (bank) = Total deposits / Total deposits held by all financial institutions which are qualified in deposit and loan business.
 - (4) Market share of loans (%) (bank) = Total loans / Total loans granted by all financial institutions which are qualified in deposit and loan business.

(Individual)

Unit:NT\$1,000

Year \ Item		Financial data 2013-2016				As of February 28, 2017 (Note 5)
		2016	2015	2014	2013	
Operating ratio	Loan-to-Deposit Ratio (%)	72.24	70.90	73.35	72.27	73.07
	NPL ratio (%) (Note6)	0.19	0.13	0.18	0.20	0.20
	Ratio of interest expenses to average deposit (Note7)	0.58	0.75	0.78	0.72	0.57
	Ratio of interest revenues to average loans (%)	2.08	2.25	2.26	2.23	2.05
	Total assets turnover (Times)	0.02	0.02	0.02	0.02	0.02
	Average revenue per employee	4,965	4,821	4,483	4,054	4,622
	Average net income per employee	1,730	1,629	1,509	1,390	1,859
Profitability ratio	Ratio of return on tier 1 capital (%)	12.96	12.98	13.53	14.16	13.04
	Ratio of return on total assets (%)	0.75	0.73	0.70	0.68	0.81
	Ratio of return on equity (%)	11.00	10.77	10.89	11.23	11.80
	Profit margin ratio (%)	34.84	33.79	33.67	34.29	40.22
	Basic earnings per share (New Taiwan Dollars)	1.85	1.80	1.74	1.77	0.35
Financial structure	Ratio of debt to assets (%)	93.14	93.31	93.19	93.90	93.15
	Ratio of properties and equipment to shareholders' equity (%)	18.62	18.80	18.85	21.92	18.42
Ratio of growing	Ratio of assets growing (%)	5.83	13.10	13.29	10.00	2.04
	Ratio of income growing (%) (Note8)	7.92	14.09	13.70	23.96	9.95
Cash Flow (Note 3)	Cash flow ratio (%) (Note9)	5.72	11.05	6.00	(Note 2)	5.72
	Cash flow Adequacy ratio (%) (Note9)	59.68	149.67	57.30	253.85	59.68
	Cash flow content ratio (%)	(Note 2)	(Note 2)	(Note 2)	(Note 2)	(Note 2)
Ratio of liquidity preparation (%)		24.67	27.27	23.58	26.27	27.57
Secured loan balance of related-party		12,115,927	11,565,228	10,224,768	8,946,196	12,290,835
Ratio of secured loans balance of related-party		1.09	1.13	1.09	1.08	1.10
Operating Scale (Note 4)	Market share of assets (%)	3.67	3.42	3.14	3.01	3.75
	Market share of equity (%)	3.62	3.40	3.33	2.92	3.69
	Market share of deposit (%)	4.10	4.38	4.11	3.92	4.08
	Market share of assets loans (%)	4.00	4.22	3.99	3.71	4.02

Note 1: No further analysis to negative result of cash flows from operating activities.

Note 2: No further analysis to negative result of cash provided by investing activities.

Note 3: The Company used 2016 cash flow data to calculate cash flow ratios as of February 28, 2017.

Note 4: The Company used 2016 data as denominator to calculate operating scale as of February 28, 2017.

Note 5: Financial figures as of February 28, 2017 are preliminary figures.

Note 6: Increase in NPL due to increase in non-performing loan of secured corporate lending and mortgage.

Note 7: Decrease in percentage of interest expense/average deposit balance due to decrease of deposit related interest expense.

Note 8: Decrease in profit growth rate due to rate cut and market.

Note 9: Decrease in cash flow ratio and cash flow adequacy ratio due to decrease of cash flow from operation caused by decrease in CBC and interbank deposit and financial liabilities at fair value through P/L.

1. Operating Ratio

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

2. Profitability ratio

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

3. Financial structure

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

4. Ratio of growing

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

5. Analyses for liquidity

- (1) Cash flow ratio = Net cash provided by operating activities / (Due to the bank + Commercial paper issued + Financial liabilities at fair value through profit or loss + Securities sold under repurchased agreements + Current portion of Payables)
- (2) Cash flow adequacy ratio = Net cash provided by operating activities(from 2012 to 2016) / from 2012 to 2016 (capital expenditure + Cash dividends)
- (3) Cash flow content ratio = Net cash provided by operating activities / Net cash provided by investing activities

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

7. Operating Scale

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

Item		Year	Financial data
			2012
Operating ratio	Loan-to-Deposit Ratio (%)		72.25
	NPL ratio (%)		0.17
	Ratio of interest expenses to average deposit (%)		0.79
	Ratio of interest revenues to average loans (%)		2.29
	Total assets turnover (Times)		0.02
	Average revenue per employee		3,959
	Average net income per employee		1,225
Profitability ratio	Ratio of return on tier 1 capital (%)		12.95
	Ratio of return on total assets(%)		0.60
	Ratio of return on stockholders' equity(%)		10.24
	Profit margin ratio (%)		30.93
	Basic earnings per share (New Taiwan Dollars)		1.64
Financial structure	Ratio of debt to assets(%)		93.95
	Ratio of properties to stockholders' equity (%)		21.88
Ratio of growing	Ratio of assets growing (%)		7.73
	Ratio of income growing (%)		135.43
Cash Flow	Cash flow ratio (%)		Note
	Cash flow Adequacy ratio (%)		5.60
	Cash flow content ratio (%)		Note
Ratio of liquidity preparation(%)			29.13
Secured loan balance of related-party			7,731,951
Ratio of secured loans balance of related-party			1.04
Operating Scale	Market share of assets (%)		3.00
	Market share of equity (%)		2.87
	Market share of deposit (%)		3.71
	Market share of assets loans (%)		3.44

Note : No further analysis to negative result of cash flows from operating activities.

1. Operating Ratio

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

2. Profitability ratio

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

3. Financial structure

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

4. Ratio of growing

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

5. Analyses for liquidity

- (1) Cash flow ratio = Net cash provided by operating activities / (Due to the bank + Commercial paper issued + Financial liabilities at fair value through profit of loss + Securities sold under repurchased agreements + Current portion of Payables)
- (2) Cash flow adequacy ratio = Net cash provided by operating activities(from 2012 to 2016) / from 2012 to 2016(capital expenditure + Cash dividends)
- (3) Cash flow content ratio = Net cash provided by operating activities / Net cash provided by investing activities

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

7. Operating Scale

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

(3) Capital adequacy Ratio

Unit:NT\$1,000

Item			Year	Financial data 2013-2016 (Consolidated)				As of February 28,
				2016	2015	2014	2013	2017 (Consolidated)
Eligible capital	Common equity		119,481,671	110,664,625	99,485,005	77,370,270	121,627,622	
	Other Tier 1 capital		17,294,464	4,037,931	69,309	-	17,330,881	
	Tier 2 capital		51,570,494	47,928,415	37,332,551	35,976,930	51,024,712	
	Eligible capital		188,346,629	162,630,971	136,886,865	113,347,200	189,983,215	
Risk-weighted assets	Credit risk	Standardized approach	1,232,534,478	1,136,426,589	988,942,372	860,041,617	1,239,853,461	
		Internal ratings - based approach	-	-	-	-	-	
		Securitization	-	8,025	282,960	383,089	-	
	Operational risk	Basic indicator approach	-	-	58,324,925	49,532,300	-	
		Standardized approach/alternative standardized approach	60,688,275	51,601,050	-	-	60,761,988	
		Advanced measurement approach	-	-	-	-	-	
	Market risk	Standardized approach	34,100,088	32,340,863	26,168,363	16,408,800	38,120,513	
		Internal model approach	-	-	-	-	-	
	Risk-weighted assets		1,327,322,841	1,220,376,527	1,073,718,620	926,365,806	1,338,735,962	
Capital adequacy ratio			14.19%	13.33%	12.75%	12.24%	14.19%	
Ratio of Tier 1 capital to risk-weighted assets			10.30%	9.40%	9.27%	8.35%	10.38%	
Ratio of common equity to risk-weighted assets			9.00%	9.07%	9.27%	8.35%	9.09%	
Leverage Ratio			6.84%	6.01%	5.78%	4.91%	6.84%	

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

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

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

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

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

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

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

Unit:NT\$1,000

Item			Year	Financial data 2013-2016 (Individual)				As of February 28, 2017 (Individual)
				2016	2015	2014	2013	
Eligible capital	Common equity		117,217,039	109,386,814	99,069,970	77,614,374	119,583,922	
	Other Tier 1 capital		14,031,679	1,894,276	-	-	14,211,017	
	Tier 2 capital		43,688,237	43,557,492	35,932,509	34,739,284	43,498,871	
	Eligible capital		174,936,955	154,838,582	135,002,479	112,353,658	177,293,810	
Risk-weighted assets	Credit risk	Standardized approach	1,183,636,579	1,112,343,800	976,538,114	849,331,474	1,193,664,159	
		Internal ratings - based approach	-	-	-	-	-	
		Securitization	-	8,025	282,960	383,089	-	
	Operational risk	Basic indicator approach	-	-	57,955,163	49,288,988	-	
		Standardized approach/alternative standardized approach	58,867,763	50,812,588	-	-	58,867,763	
		Advanced measurement approach	-	-	-	-	-	
	Market risk	Standardized approach	33,630,263	32,340,863	26,168,363	16,408,800	37,850,025	
		Internal model approach	-	-	-	-	-	
	Risk-weighted assets		1,276,134,605	1,195,505,276	1,060,944,600	915,412,351	1,290,381,947	
	Capital adequacy ratio			13.71%	12.95%	12.72%	12.27%	13.74%
Ratio of Tier 1 capital to risk-weighted assets			10.28%	9.31%	9.34%	8.48%	10.37%	
Ratio of common equity to risk-weighted assets			9.19%	9.15%	9.34%	8.48%	9.27%	
Leverage Ratio			6.69%	5.89%	5.86%	4.94%	6.71%	

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

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

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

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

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

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

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

(4) Capital adequacy Ratio – ROC GAAP

Unit:NT\$1,000

Item			Year	Financial data
				2012
Eligible Capital	Tier 1 capital	Common stock		45,725,000
		Non-cumulative Preferred Shares		0
		Perpetual non-cumulative subordinated debentures		0
		Capital collected in advance		0
		Additional paid-in capital(excluding reserve derived from rise in value of fixed assets)		12,345,531
		Legal reserve		9,442,173
		Special reserve		305,423
		Retained earnings		7,383,125
		Minority interest		0
		Other stockholders' equity		(349,597)
		Less : Goodwill		3,808,089
		Less : non-amortized loss on the sales of NPL		0
		Less : Capital allowances		170,386
		Total tier 1 capital		70,873,180
	Tier 2 capital	Perpetual accumulated preferred shares		0
		Perpetual cumulative subordinated debentures		0
		Reserve derived from rise in value of fixed assets		0
		45%of capital surplus via unrealized long-term equity investment		192,181
		Convertible bonds		0
		Operating reserve and bad loan provisioning		6,029,700
		Long-term subordinated debentures		26,500,000
		Non-perpetual preferred shares		0
		The total of perpetual non-cumulative preferred & subordinated debentures excess of 15 of Tier 1 capital		0
		Less : Capital allowances		170,386
		Total tier 2 capital		32,551,495
	Tier 3 capital	Short-term subordinated debentures		0
		Non-cumulative preferred shares		0
		Total tier 3 capital		0
	Eligible Capital			
Risk-Weighted Assets	Credit Risk	Standardized approach		725,386,677
		Internal ratings-based approach		0
		Securitization		265,725
	Operational Risk	Basic indicator approach		42,592,125
		Standardized approach/Alternative standardized approach		0
		Advanced measurement approach		0
	Market Risk	Standardized approach		14,833,625
		Internal mode approach		0
	Risk-weighted assets			
Capital Adequacy Ratio (%)				13.21%
Ratios of tier 1 capital to risk-weighted assets(%)				9.05%
Ratios of tier 2 capital to risk-weighted assets(%)				4.16%
Ratios of tier 3 capital to risk-weighted assets(%)				0
Ratios of common stockholders' equity to total assets(%)				3.70%

Note 1: Eligible capital = Tier 1 capital + Tier 2 capital + Tier 3 capital.

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

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

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

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

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

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

4. Audit Committee Report

Audit Committee Report.

Audit Committee Report

To: E.SUN Bank

The 2016 consolidated financial statements of E.SUN Bank ("the Bank") have been prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Public Banks", "Guidelines Governing the Preparation of Financial Reports by Securities Firms", "International Financial Reporting Standards", "International Accounting Standards", "IFRIC Interpretations" and "SIC Interpretations" endorsed by the Financial Supervisory Commission of the Republic of China. The 2015 standalone financial statements of the Bank have been prepared in accordance with the "Guidelines Governing the Preparation of Financial Reports by Public Banks" and "Guidelines Governing the Preparation of Financial Reports by Securities Firms". CPA Chen Yin Chou and CPA Huang Jui Chan of Deloitte & Touche have been appointed by the Bank to audit the financial statements. After reviewing the financial statements, the Audit Committee has found them to meet the requirements of the applicable laws and guidelines. The report is hereby prepared in accordance with Article 14-4 and Article 36 of Security and Exchange Law and submitted along with the financial statements of the Bank for the Board's approval.



Chen-En Ko
Convener
Audit Committee
E.SUN Bank

Date: March 1, 2017

VII. Risk Management



1. Risk Management

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

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

1. Qualitative and Quantitative Information Concerning Risk Types

1.1 Credit Risk Management Institution and Capital Charges

(1) Credit Risk Management Institution

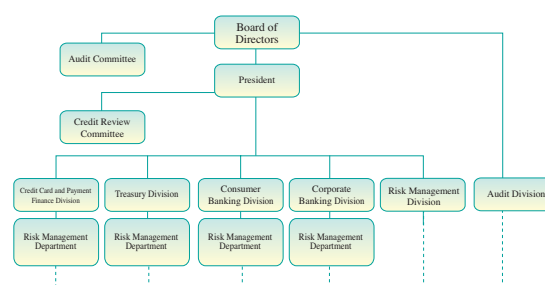
a. Credit Risk Strategies, Goals, Policies and Processes

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

Credit Risk Management", internal lending and transaction with counterparties' risk control mechanisms, thus continuing to assess and to follow with domestic and foreign economic and financial trends, make adjustments to internal criteria as appropriate. E.SUN complies with the latest rules of Basel, set up comprehensive credit management institution and adopt credit evaluation models. The control of credit risk concentration is covered in the Bank's internal regulation, via composing different limits for credit risk and counterparties, for instances, credit limit, sector, country and group type to comply with regulations set forth by authorities. If unusual or emergency happens, E.SUN bank will report accordingly.

b. Credit Risk Management Organization and Framework

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



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

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

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

d. Credit Risk Hedging and Risk Mitigation Policies; Strategies and Processes to Monitor the

Continued Effectiveness of Risk Mitigation Tools

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

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

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

2016.12.31 unit : NT\$ thousand

Category of Exposure	Exposure after Risk Mitigation	Capital Charges
Sovereign	101,290,798	0
Public Sector (Non-central government)	2,504,193	40,067
Banks (including multilateral development banks)	144,356,945	5,524,042
Corporate (including securities and insurance companies)	536,350,242	40,817,438
Retail Bonds	502,009,899	32,401,959
Residential Real Estate	232,731,201	13,196,233
Equity Investments	246,122	78,759
Other Assets	48,540,020	2,286,680
Total	1,568,029,420	94,345,176

1.2 Operational Risk Management institution, Exposure and Capital Charges

(1) Operational Risk Management institution

a. Operational Risk Strategy and Processes

E.SUN believes the internal measures to minimize operational risk are founded on an excellent operating system, a high degree of risk awareness among all employees, arule-abiding and disciplined corporate culture. E.SUN is using the three lines of defense model, which includes self assessment, compliance and risk management and internal audit, to ensure the effectiveness of the design and execution of internal control system. In addition to providing extensive education and training to personnel, E.SUN has also drafted rules and regulations to guard against operational risk. In addition, in order to ensure protection against risk caused by external events, E.SUN continuously monitors the market environment, customer behavior, changes in technology, and laws and regulations. This enables it to be sensitive to any steps that need to be taken and react appropriately and immediately.

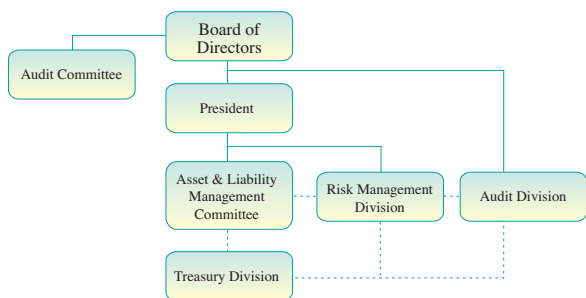
Since its adoption of the Standardized Approach to calculate the capital charge of operational risk, the Bank has to date completed installation of management mechanisms and systems. Besides further improving ongoing and post-

incident control, the Bank has also sought to strengthen preventive endeavors so as to identify potential risks before they materialize. E.SUN received the approval from Financial Supervisory Commission in June 2014 for applying the Standardized Approach to calculate the capital charge of operational risk, and started executing this approach from the first quarter of 2015.

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

b. Operational Risk Management Organization and Framework

As the Bank's highest-ranking decision maker with regard to operational risk management, the board of directors is charged with setting operational risk management guidelines and risk appetite among other key decisions on this front in accordance with the Bank's operating strategy and business environment. That is, it is responsible to ensure that the Bank's operational risk management mechanism works effectively. In turn, the Risk Management Division is given the duty of designing and introducing the



Bank's operational risk management mechanism, setting and revising operational risk management regulations, and tracking and monitoring operational risk management practices at all the business divisions. Besides presenting suggestions on corrective measures, it is also supposed to consolidate operational risk management information across the Bank and report it to the board. For their part, business units shall map out operational manuals and regulations as the basis of their supervising operating units' implementation of operational risk management. In accordance with the operational regulations laid down by business units, operating units are supposed to work with the former in identifying operational risk and undertake all the necessary risk management tasks prescribed by the Bank. It is the duty of the Auditing Division to evaluate and verify if every unit has adopted an effective operational risk management framework, process and systems on a regular basis.

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

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

The department of Operational Risk management in the head office will regularly disclose information detailing its monitoring of operational risk throughout the Bank. Operational risk data and other related information is compiled and

presented in reports to senior management, the Risk Management Committee, and the board of directors.

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

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

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

As of December 31, 2016 unit: NT\$ thousand

Year	Gross Income	Capital Charged
2014	30,195,620	—
2015	35,091,680	
2016	38,450,145	
Total	103,737,445	4,709,421

1.3 Market Risk Management System, Exposure and Capital Charges

(1) Market Risk Management institution

a. Market Risk Managerial Strategy and Processes

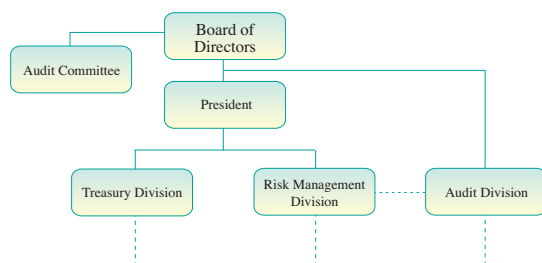
In order to avoid giant risk from fluctuations in the prices of equities, commodities, interest rates and foreign exchange rates, and from any correlation between these prices of these items, all financial transactions must be carried out in accordance with the Principle of Market Risk Management, Guidelines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

In order to enhance management when price of financial transactions deviate from market price and strengthen risk management mechanism, E.SUN has made for Management of Price Deviation from Fair Market Price for Financial Asset. It is made for monitoring daily financial asset price deviation and report management of the deviation.

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

b. Market Risk Management Organization and Framework

E.SUN has set forth market risk management policies. In addition, the Risk Management Division is responsible for risk management and fair value assessment of financial products and report to the board and the Risk Management Committee of the E.SUN FHC periodically on market risk portfolio and stress testing. The abovementioned controlling procedures are applied in order to fully realize market risk management objectives. The Bank's market risk management organizational framework is shown in the diagram below.



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

Regarding market risk management, E.SUN presently employs the Reuters Kondor+ system, Murex system, Numerix software with data

mart of Bloomberg and Reuters to evaluate and monitor trading positions and real-time pricing. The system also generates VaR for all investment and trading position carried out in the Bank, helping to monitor the risks. Besides, E.SUN Bank uses KGR system to manage real-time position limits, taking market volatility into consideration to manage market risk and counterparty limits.

d. Market Risk Hedging and Risk Mitigation Policies ; Strategies and Processes for Monitoring the Continued Effectiveness of Risk Avoidance and Risk Mitigation Tools

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

e. Approach to Determining Regulatory Capital Charges

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

(2) Market Risk Capital Charged

2016.12.31 unit : NT\$ thousand

Risk Type	Capital Charged
Interest rate risk	1,716,090
Equity Securities risk	771,994
FX risk	190,641
Commodity Risk	11,696
Option based on simple method	-
Total	2,690,421

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

(1) Program of Anti-Money Laundering and Counter Terrorism Financing

a. Policies and procedures for Anti-Money Laundering and Counter Terrorism Financing. The problems of money-laundering and financing of terrorism have become a major threat to the international financial system. As a member of international financial society, the Bank is striving to Anti-Money Laundering and Counter Terrorism Financing by making policies and procedures aligned with the government's and competent authority's relevant laws and regulations, and consistent with international guidelines such as the Forty Recommendations issued by the Financial Action Task Force on Money Laundering (FATF). To abide with the Money Laundering Control Act and Guidelines for Anti-Money Laundering and Countering Terrorism Financing by Banking Enterprises, the Bank has promulgated the "E.SUN Commercial Bank policy to control money-laundering and counter the financing of terrorism," "E.SUN Commercial Bank guidelines to control money-laundering and counter the financing of terrorism," and other procedures and operating rules. These guidelines and policies clearly set forth principles and procedures for customer identification, establishment of business relationships, monitoring and reporting of suspicious transactions, and education and training. We are committed to preventing law-breakers from using banking services or operating activities to engage in money-laundering and fund terrorist activities.

b. Organization and framework

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

(a) We have designated a dedicated AML Officer responsible for promoting, coordinating, and supervising the implementation of money-laundering control and anti-terrorism financing measures; this executive reports anti-money-

laundering internal control measures and the state of implementation to the board of directors at least semi-annually.

(b) We have assigned AML department of our Risk Management Division to serve as our dedicated unit in charge of determining money-laundering control and anti-terrorism financing policies and operating standards, monitoring suspected money-laundering transactions bank-wide, monitoring bank-wide money-laundering control reports, and managing money-laundering control work at overseas branch organizations (including branches and subsidiary banks). This dedicated unit must report the status and results of its money-laundering control actions to AML Officer at least quarterly.

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

c. Money-laundering and terrorism financing risk management strategy

In order to fully implement the Bank's money-laundering controls and anti-terrorism financing policies and reduce risk, the Bank took the lead by establishing its own AML system in 2014 on the basis of international money-laundering control standards and continued to improve its suspicious transaction monitoring logic and relevant functions in 2016. At the same time, we encourage colleagues to improve their professional skills, and are promoting domestic and international professional licenses (such as Certified Anti-Money Laundering Specialist (CAMS) certification) recognized by the competent authority, which has served to boost professional knowledge, as well as strengthening education and training. As of the end of 2016, a total of 16 employees at the company had received CAMS certification. The Bank has also adopted a money-laundering

and terrorism financing risk assessment program, and employs international standards to perform institutional risk assessment on money laundering and terrorism financing. The results of these assessments indicate that, thanks to the Bank's KYC system, name scans, suspicious transaction monitoring, risk assessment, and education and training measures, overall money-laundering and terrorism financing risk is low.

d. Objective results

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

1.5 Asset and Liability Management

(1) Liquidity Risk Management

E.SUN has drafted liquidity risk management policy, asset and liabilities management policy, interest rate risk management procedure and principles for liquidity risk management. Various control factors are monitored on a daily basis, and Bank wide liquidity risk is regularly subjected to stress tests to ensure the expected impact on the liquidity is within the acceptable level, and reported to Asset-Liability Management Committee every month.

(2) Asset and Liability Maturity Analysis :

TWD Maturity Term Structure Analysis

2016.12.31 unit : NT\$ thousand

	Total	Time to maturity					
		0-10 days	11-30 days	31-90 days	91-180 days	181-365 days	more than 1 year
money inflow	1,486,184,432	332,323,100	89,891,073	127,067,152	142,140,794	234,795,288	559,967,025
money outflow	1,817,730,144	63,556,835	90,787,921	179,322,020	199,375,758	307,637,311	977,050,299
term gap	(331,545,712)	268,766,265	(896,848)	(52,254,868)	(57,234,964)	(72,842,023)	(417,083,274)

TWD Maturity Term Structure Analysis

2016.12.31 unit : NT\$ thousand

	Total	Time to maturity				
		0-10 days	11-30 days	31-90 days	91-180 days	181-365 days
money inflow	16,935,131	5,183,464	2,373,940	2,205,021	1,679,379	5,493,327
money outflow	21,030,407	4,171,298	5,242,162	4,184,679	5,406,242	2,026,026
term gap	(4,095,276)	1,012,166	(2,868,222)	(1,979,658)	(3,726,863)	3,467,301

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

2.1 Execution of anti-money laundry and anti-terrorism

- (1) With a view to strengthen anti-money laundry and anti-terrorism, the FSC has revisited the 40 recommendations proposed by Financial Action Task Force, FATF. In addition, it also referred to the Guidance to Fundamental of Banking Risk published by FATF in October 2014, the documents about risk management anti-money laundry and anti-terrorism published by Basel Banking Regulation Committee in January 2014, and legislations in the US, New Zealand, and Hong Kong. On July 27th, 2016, the FSC has promulgated the Anti-Terrorism Act, and on announced the amended Notice of Anti-Money Laundry and Anti-Terrorism on December 2nd.
- (2) The Bank has amended the Notice of Anti-Money Laundry and Anti-Terrorism according to the newly passed law on January 6th, 2017, in order to prevent the criminal operations. It has adopted the risk fundamental methodologies to confirm identity of customers and continuous checking mechanism. In addition, it also verifies shareholding structure and beneficiary owner of corporate or trust clients. The effectiveness of anti-money laundry and anti-terrorism can be ensured according to the three frontiers of internal control.

2.2 Execution of Three Lines of Defense

- (1) The FSC has passed the Practice of Three Lines of Defense for Banking Internal Control on September 23rd, 2016. It is clearly defined the framework and responsibilities of the three lines of defense, enforcing coordination of the three lines and promoting the realization of the ideals of three lines. It is expected that the Practice will effectively help banks to perfect internal control system and strengthen health of the company.
- (2) The current internal control system is made according to Practice for Internal Control and Auditing of Financial Holding Companies and Banks and internal control regulations of each

business function. It is complaint with the ideals and roles illustrated in the three lines of defense. The Bank has started to amend the Internal Control System of E.SUN Bank to allow every department to understand each of their role within internal control framework. The ideal of the three lines of defense is incorporated into internal control system of the Bank to ensure effectiveness of internal control and risk management system.

2.3 Implementation of the principle of fair dealing

- (1) On December 31, 2015, the FSC instructed all financial services enterprises to introduce their respective policy and strategy with respect to fair treatment of customers as part of protection of financial consumers. For its part, E.SUN Bank has conducted a policy and strategy on principle of equal treatment to the customers and would incorporate them into its corporate culture, thereby enhancing customer confidence and fostering E.SUN's sustainable development.
- (2) With an effort to improve efficiency and quality of resolution to disputes of financial service, thereby enhancing protection of consumer rights, the Bank has promulgated the Mechanism of Handling Consumption Disputes. It is expected that resolution of disputes between customers can be fair, reasonable, and fully compliant with consumer protection laws.

2.4 Enforcement of the Dodd-Frank Act

- (1) Resolution plan
Following the passage of the United States' Dodd-Frank Act in July 2010, the final version of law DFA165(d), which governs resolution plans, took effect on November 30, 2011. This legislation required foreign financial institutions with total assets exceeding US\$50 billion and US branches to propose resolution plans prior to December 31, 2013.

If the Bank becomes subject to this legislation prior to June 30, 2017, in accordance with rule 165(d), it must report its resolution plan to the US Federal Reserve Bank and Federal Deposit Insurance Corporation (FDIC) prior

to December 31, 2017 after the plan has been approved by the board of directors. In order to comply with relevant regulations and complete resolution plan reporting before the deadline, the Bank has hired an external consultant to assist with relevant matters connected with resolution plan implementation.

(2) Strengthening enhanced prudential standards (EPS)

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

2.5 Implementation of the European Market Infrastructure Regulation (EMIR)

(1) Derivative margin requirement: At its 2009 summit, the G20 resolved to perform monitoring of all OTC derivatives in order to reduce systemic risk and increase market transaction counterparty risk tolerance.

- a. All standard derivatives must be cleared through centralized clearing, and grading-type control of financial institutions must be performed. Since the Bank is subject to 2nd level regulations, it completed centralized clearing platform establishment in December 2016 and performed relevant matters.
- b. The Bank is implementing a margin requirement system for nonstandard derivatives, and this system will take effect during March 2017. The Bank expects to complete revision of a new version of the written agreement before the regulations take effect.

2.6 Common Reporting Standard (CRS)

- (1) The OECD issued the Standard for Automatic Exchange of Financial Information in Tax Matters on July 21, 2014. The "AEOI standard model" seeks to prevent offshore tax evasions through the use of an automatic global financial information exchange system, and thereby maintain the integrity of tax revenue systems. Participating countries/areas that have signed tax assistance agreements have agreed to perform the exchange of tax information in accordance with the CRS.
- (2) Since several countries where the Bank's overseas branch organizations are located, namely Hong Kong, Singapore, China, and Australia, have signed tax assistance agreements, the Bank has hired an external consultant to assist in drafting relevant procedure control and compliance plans, and will adopt relevant procedures in accordance with the timetables of the countries in which overseas branches and subsidiary banks are located.

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

The FSC has been proactively encouraging the banks to develop mobile payment by proposing the plan to double digital payment in 5 years. Nevertheless, the FSC also opens the mobile credit card business for banks to apply for. In 2016, E.SUN was granted for such business and has introduced international payment such as Apple pay, Google pay, and Samsung pay. As the first bank who issued HCE mobile credit card, E.SUN will take the advantage of HCE and learn from its experience operating in global markets to implement and build procedure and system relating to risk monitoring, maintenance, customer service in domestic market. Besides, E.SUN will expand payment and additional functions of E.SUN Wallet to fulfill needs of different segments, including scan payment, vouchers, and membership card. The goal of E.SUN Wallet is to become the most widely

used, most convenient mobile card in Taiwan, making every cell phone of customers an E.SUN credit card.

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

Terms of corporate governance and to provide comprehensive financial services in accordance with laws and regulations of authorities . Transparency is provided for transactions carried out by related parties in order to avoid conflicts of interest. At the same time, the Bank emphasizes protecting the interests of shareholders, providing better framework in risk management, employees training and benefits to employees. E.SUN is committed to social welfare and environmental protection causes and it has made every effort to transfer its commitment in practice. In order to maintain its image, internal departments will make correction thereof if any of its actions lead to damage or decline in its image. E.SUN desires to be an example of an outstanding company and seeks to fulfill its corporate social responsibility, thereby continually maintaining its image.

It is widely recognized by the public and international communities that E.SUN placed high value on CSR and customer service. In 2016, E.SUN won the CSR Award for the tenth consecutive year, as well as Best Bank of Taiwan by Asiamoney, The Asset, and The Banker for its financial performance and financial innovation. With respect to customer service, E.SUN also set the record in financial service industry by winning the Commonwealth Magazine's Service Award first place award for the 5th time.

In the future, E.SUN will continue to revamp its physical channel, improve trading system, and provide total solution to customers with its prospective and localized approach. E.SUN will bring more innovation and hearty service experience for customers, employees, and the bank and create a better digital life.

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

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

At the end of 2016, the Bank had a total 137 domestic branches and 6 overseas branches, which are Los Angeles, Hong Kong, Singapore, Dong Nai, Sydney, and Yangon). Faced with the competition posed by digital banking, E.SUN is dedicated to build a digitized and high value-added branch channel, improving operational efficiency, optimizing customer experience, and enhancing risk management. Meanwhile, E.SUN continues to refine and innovate on its self-service finance facilities, providing a seamless O2O service experience.

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

7.1 Concentration of Operations

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

7.2 Concentration of Counterparties

The Bank regulates risk acceptance limits reflecting industry type and group, and makes adjustments based on the prevailing economic conditions and risk conditions. The Bank also performs regular review of the appropriateness of lending criteria in the case of risk-warning accounts, and faithfully implements mid-term management. This has ensured that the chief risks encountered in the Bank's business development remain within an acceptable scope.

7.3 Concentration of Secured Lending Business

(1)The Bank has drafted limits on loan percentages based on the type of collateral and the area, and maintains strict control.

(2) To avoid excessive concentration on real estate loans, based on the need to control real estate credit risk, the Financial Supervisory Commission requires banks to perform self-management of their loan concentration, and determine monitoring mechanisms and indicators.

7.4 Concentration of Unsecured Lending Business

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

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

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

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

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

10. Litigious or Non-litigious Incidents: None.

11. Other Major Risk Countermeasures: None.

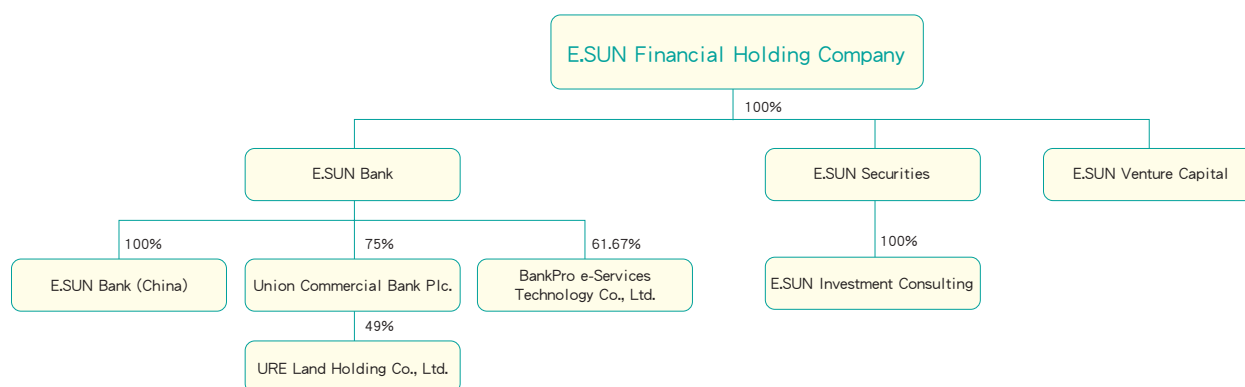
VIII. Special Disclosure



1. Summary of Affiliated Companies

1.1 Consolidated Operating Report on Affiliated Companies

(1) Organization Chart of Affiliated Companies



(2) Operation Status of Affiliated Companies

As of December 31, 2016 Unit: NT\$ thousand

Name	Capital	Total Asset	Total Liability	Net Worth	2015 P/L (after tax)	EPS (after tax in NT\$)
E.SUN FHC	87,654,000	137,352,223	8,827,748	128,524,475	13,135,212	1.50
E.SUN Securities	4,000,000	11,496,003	6,785,208	4,710,795	56,375	0.14
E.SUN Venture Capital	3,000,000	3,657,133	67,198	3,589,935	4,633	0.02
E.SUN Investment Consulting	50,000	69,140	10,797	58,343	2,729	0.55
Union Commercial Bank Plc.	1,210,463	20,569,904	17,705,384	2,864,520	(780,197)	(20,805.25)
URE Land Holding Co., Ltd.	32	508,421	489,956	18,465	3,450	3,449.51
BankPro e-Services Technology Co., Ltd.	135,000	484,415	138,139	346,276	32,785	2.43
E.SUN Bank (China)	10,038,248	22,217,836	12,651,788	9,566,048	(68,079)	(Note 6)

*Note1: The accounts in the Balance Sheet of Union Commercial Bank Plc. are converted to NTD using the exchange rate for settlement of December 31, 2016 which is 32.279. The accounts in the Profit and Loss Statement of Union Commercial Bank Plc. are converted to NTD using the average exchange rate for settlement of the year 2016, which is 32.2909.

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

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

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

1.2 Report on Affiliation

As of December 31, 2016

Name of Controlling Company	Reason of Control	Shareholding and Pledge status of Controlling Company			Representation of Directors, Independent Directors or Managers of Controlling Company
		No. of Shareholding	Shareholding Ratio	Pledged Share Number	
E.SUN Financial Holding Company	100% shareholding	7,262,883,000 shares	100%	0 share	Title and name as following note

*Note:

Chairman: Kuo-Lieh Tseng

Managing Directors: Joseph N.C. Huang, Jackson Mai, Chen-Chen Chang Lin (also being Independent Director)

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

Directors: Ron-Chu Chen, Chien-Li Wu, Ben Chen, Magi Chen, Mao-Chin Chen, Louis Chang

1.3 Other Important Transaction:

E.SUN Bank received a fee of NTD 46,772 thousand from E.SUN FHC for sharing the resource of IT system in 2016.

1.4 Guarantee for Affiliated Companies: None

2. Representation of Consolidated Financial Statements of Affiliated Enterprises

Representation

March 1, 2017

On behalf of E.SUN Commercial Bank, Ltd., we hereby declare that the company's 2016 Affiliation Report (Period from Jan.1, 2016 to Dec. 31, 2016) followed the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises". There is no material discrepancy with the information disclosed in the notes of financial report for the said period.

E.SUN Commercial Bank, Ltd.

Chairman

A handwritten signature in black ink, appearing to read "Gary Tseng", is written over a horizontal line.

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

None

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

None

5.Other Required Supplementary Disclosure:

None

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

**Consolidated Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the accompanying consolidated financial statements of E.SUN Commercial Bank, Ltd. (the Bank) and its subsidiaries (collectively, the Company), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Emphasis of Matter

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2016 are described as follows:

Allowances for Possible Losses on Loans

The Company is engaged principally in providing loans to customers. As of December 31, 2016, the net amount of discounts and loans of the Company is NT\$1,118,148,669 thousand, which represents approximately 60% of total consolidated assets, and is considered material to the consolidated financial statements as a whole. The Company's management performs loan impairment assessment through reviewing portfolios of loans per month and makes a judgement on whether to recognize impairment losses based on if any observable evidence indicates the possible occurrence of impairment events exists. The amount of impairment losses is the difference between the asset's carrying amount and the present value of estimated future cash flows with consideration to the collaterals and guarantees, discounted at the financial asset's original effective interest rate. Also, the allowance provision has to comply with relevant regulations issued by authorities. Impairment loss on loans is recognized by reducing its carrying amount through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. For accounting policies and relevant information about loan impairment assessment, please refer to Notes 4, 5, and 11 to the consolidated financial statements. We determined allowances for possible losses on loans to be a key audit matter for the year ended December 31, 2016 because the assessment involves critical judgements such as accounting estimates and assumptions made by the Company's management.

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

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

Goodwill Impairment Assessment

The Company's management performs goodwill impairment assessment annually. When performing goodwill impairment assessment, the Company's management needs to determine the value in use of cash-generating units (CGUs) to which goodwill has been allocated. To determine value in use, the Company's management has to estimate the expected future cash flows generated from CGUs and applies the appropriate discount rate to those future cash flows. For accounting policies and relevant information about goodwill impairment assessment, please refer to Notes 4, 5, and 17 to the consolidated financial statements. We determined goodwill impairment assessment to be a key audit matter for the year ended December 31, 2016 because the assessment involves critical judgements such as accounting estimates and assumptions made by the Company's management.

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

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

Other Matter

We have also audited the financial statements of E.SUN Commercial Bank, Ltd. as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 6, 2017

Notice to Readers

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

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

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS **DECEMBER 31, 2016 AND 2015** **(In Thousands of New Taiwan Dollars)**

	2016		2015 (Restated)	
	Amount	%	Amount	%
ASSETS				
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 35)	\$ 36,714,344	2	\$ 36,545,545	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 4 and 7)	62,731,770	3	67,401,915	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 36)	366,077,137	20	348,549,110	20
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 9)	173,470	-	896,844	-
RECEIVABLES, NET (Notes 4, 10, 35 and 36)	75,992,232	4	71,523,411	4
DISCOUNTS AND LOANS, NET (Notes 4, 11, 35 and 36)	1,118,148,669	60	1,021,994,720	58
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 12 and 36)	141,099,283	8	129,776,329	8
HELD-TO-MATURITY FINANCIAL ASSETS, NET (Notes 4, 13 and 36)	3,616,960	-	5,289,839	-
OTHER FINANCIAL ASSETS, NET (Notes 4 and 14)	27,301,621	2	40,563,130	2
PROPERTIES AND EQUIPMENT, NET (Notes 4 and 15)	25,785,381	1	26,156,346	2
INVESTMENT PROPERTIES, NET (Notes 4 and 16)	2,295,788	-	717,111	-
INTANGIBLE ASSETS, NET (Notes 4 and 17)	6,162,335	-	5,881,172	-
DEFERRED TAX ASSETS (Notes 4 and 32)	423,706	-	484,338	-
OTHER ASSETS, NET (Notes 4, 18, 35 and 37)	<u>3,608,695</u>	<u>-</u>	<u>4,850,525</u>	<u>-</u>
TOTAL	<u>\$ 1,870,131,391</u>	<u>100</u>	<u>\$ 1,760,630,335</u>	<u>100</u>
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 19)	\$ 52,516,006	3	\$ 71,170,130	4
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 23)	42,091,703	2	35,836,236	2
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4, 12, 13 and 20)	8,881,723	-	8,034,391	-
PAYABLES (Notes 21 and 35)	23,638,238	1	18,097,091	1
CURRENT TAX LIABILITIES (Notes 4, 32 and 35)	1,235,474	-	1,013,814	-
DEPOSITS AND REMITTANCES (Notes 22 and 35)	1,559,551,047	84	1,458,060,002	83
BANK DEBENTURES (Note 23)	42,250,000	2	44,950,000	3
OTHER FINANCIAL LIABILITIES (Notes 24, 35 and 37)	9,654,553	1	1,863,375	-
PROVISIONS (Notes 4, 25 and 26)	417,808	-	472,255	-
DEFERRED TAX LIABILITIES (Notes 4 and 32)	924,744	-	1,260,329	-
OTHER LIABILITIES (Notes 27 and 35)	<u>1,935,565</u>	<u>-</u>	<u>1,614,366</u>	<u>-</u>
Total liabilities	<u>1,743,096,861</u>	<u>93</u>	<u>1,642,371,989</u>	<u>93</u>
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK				
Capital stock				
Common stock	<u>72,628,830</u>	<u>4</u>	<u>66,840,000</u>	<u>4</u>
Capital surplus				
Additional paid-in capital from share issuance in excess of par value	19,491,100	1	18,803,652	1
From treasury stock transactions	483	-	483	-
Others	<u>346,198</u>	<u>-</u>	<u>334,938</u>	<u>-</u>
Total capital surplus	<u>19,837,781</u>	<u>1</u>	<u>19,139,073</u>	<u>1</u>
Retained earnings				
Legal reserve	20,721,566	1	17,204,363	1
Special reserve	83,866	-	83,866	-
Unappropriated earnings	<u>13,056,168</u>	<u>1</u>	<u>11,724,011</u>	<u>1</u>
Total retained earnings	<u>33,861,600</u>	<u>2</u>	<u>29,012,240</u>	<u>2</u>
Other equity	<u>42,680</u>	<u>-</u>	<u>1,399,997</u>	<u>-</u>
Total equity attributable to owners of the Bank	<u>126,370,891</u>	<u>7</u>	<u>116,391,310</u>	<u>7</u>
EQUITY ATTRIBUTABLE TO OWNERS OF ELIMINATED COMPANY IN BUSINESS COMBINATION UNDER COMMON CONTROL	-	-	1,133,244	-
NON-CONTROLLING INTERESTS	<u>663,639</u>	<u>-</u>	<u>733,792</u>	<u>-</u>
Total equity	<u>127,034,530</u>	<u>7</u>	<u>118,258,346</u>	<u>7</u>
TOTAL	<u>\$ 1,870,131,391</u>	<u>100</u>	<u>\$ 1,760,630,335</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 6, 2017)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2016</u>		<u>2015 (Restated)</u>		<u>Percentage Increase (Decrease)</u>
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>%</u>
INTEREST REVENUE (Notes 4, 28 and 35)	\$ 29,530,082	73	\$ 29,636,188	79	-
INTEREST EXPENSE (Notes 4, 28 and 35)	<u>(11,111,075)</u>	<u>(27)</u>	<u>(12,383,085)</u>	<u>(33)</u>	(10)
NET INTEREST	<u>18,419,007</u>	<u>46</u>	<u>17,253,103</u>	<u>46</u>	7
NET REVENUES AND GAINS OTHER THAN INTEREST					
Service fee income, net (Notes 4, 29 and 35)	14,939,301	37	13,190,184	35	13
Gains on financial assets and liabilities at fair value through profit or loss (Notes 4 and 30)	5,459,684	13	7,023,386	19	(22)
Realized gains on available-for-sale financial assets (Note 4)	337,507	1	326,023	1	4
Foreign exchange gains (losses), net (Note 4)	778,038	2	(826,961)	(2)	194
Reversal of impairment losses (impairment losses) on assets (Notes 4 and 16)	(125)	-	180	-	(169)
Other noninterest gains, net (Notes 4 and 35)	<u>343,650</u>	<u>1</u>	<u>319,942</u>	<u>1</u>	7
Total net revenues and gains other than interest	<u>21,858,055</u>	<u>54</u>	<u>20,032,754</u>	<u>54</u>	9
TOTAL NET REVENUES	<u>40,277,062</u>	<u>100</u>	<u>37,285,857</u>	<u>100</u>	8
BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON GUARANTEES (Notes 4 and 11)	<u>(3,462,064)</u>	<u>(9)</u>	<u>(3,565,789)</u>	<u>(10)</u>	(3)
OPERATING EXPENSES (Notes 4, 15, 16, 17, 26, 31 and 35)					
Employee benefits	(9,618,254)	(24)	(8,499,075)	(23)	13
Depreciation and amortization	(1,452,274)	(3)	(1,192,671)	(3)	22
General and administrative	<u>(10,312,995)</u>	<u>(26)</u>	<u>(9,351,047)</u>	<u>(25)</u>	10
Total operating expenses	<u>(21,383,523)</u>	<u>(53)</u>	<u>(19,042,793)</u>	<u>(51)</u>	12

(Continued)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015 (Restated)		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INCOME BEFORE INCOME TAX	\$ 15,431,475	38	\$ 14,677,275	39	5
INCOME TAX EXPENSE (Notes 4 and 32)	<u>(2,171,365)</u>	<u>(5)</u>	<u>(1,947,381)</u>	<u>(5)</u>	12
NET INCOME FOR THE YEAR	<u>13,260,110</u>	<u>33</u>	<u>12,729,894</u>	<u>34</u>	4
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss (Notes 4, 26 and 32):					
Remeasurement of defined benefit plans	20,055	-	(126,150)	(1)	116
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(46,523)	-	(85,103)	-	(45)
Income tax relating to items that will not be reclassified subsequently to profit or loss	<u>574</u>	<u>-</u>	<u>33</u>	<u>-</u>	1,639
Items that will not be reclassified subsequently to profit or loss, net of income tax	<u>(25,894)</u>	<u>-</u>	<u>(211,220)</u>	<u>(1)</u>	(88)
Items that may be reclassified subsequently to profit or loss (Notes 4 and 32):					
Exchange differences on the translation of financial statements of foreign operations	(1,508,601)	(4)	629,304	2	(340)
Unrealized losses on available-for-sale financial assets	(287,154)	(1)	(1,717)	-	16,624
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>234,704</u>	<u>1</u>	<u>(97,228)</u>	<u>-</u>	341
Items that may be reclassified subsequently to profit or loss, net of income tax	<u>(1,561,051)</u>	<u>(4)</u>	<u>530,359</u>	<u>2</u>	(394)

(Continued)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	<u>2016</u>		<u>2015 (Restated)</u>		<u>Percentage Increase (Decrease)</u>
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>%</u>
Other comprehensive income (loss) for the year, net of income tax	\$ (1,586,945)	(4)	\$ 319,139	1	(597)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 11,673,165</u>	<u>29</u>	<u>\$ 13,049,033</u>	<u>35</u>	(11)
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	\$ 13,265,263	33	\$ 11,908,600	32	11
Owners of eliminated company in business combination under common control	146,088	-	758,682	2	(81)
Non-controlling interests	<u>(151,241)</u>	<u>-</u>	<u>62,612</u>	<u>-</u>	(342)
	<u>\$ 13,260,110</u>	<u>33</u>	<u>\$ 12,729,894</u>	<u>34</u>	4
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the Bank	\$ 11,693,311	29	\$ 12,197,962	33	(4)
Owners of eliminated company in business combination under common control	146,088	-	755,785	2	(81)
Non-controlling interests	<u>(166,234)</u>	<u>-</u>	<u>95,286</u>	<u>-</u>	(274)
	<u>\$ 11,673,165</u>	<u>29</u>	<u>\$ 13,049,033</u>	<u>35</u>	(11)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 33)					
Basic	<u>\$1.85</u>		<u>\$1.76</u>		

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

(With Deloitte & Touche auditors' report dated March 6, 2017)

(Concluded)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Bank											
								Other Equity				
	Capital Stock (Note 34)			Retained Earnings (Notes 4 and 34)				Exchange Differences on the Translation of Financial Statements of Foreign Operations (Note 4)	Unrealized Gains on Available-for-sale Financial Assets (Note 4)	Equity Attributable to Owners of Eliminated Company in Business Combination under Common Control	Non-controlling Interests (Notes 4 and 34)	Total Equity
	Shares (In Thousands)	Common Stock	Capital Surplus (Notes 4 and 34)	Legal Reserve	Special Reserve	Unappropriated Earnings						
BALANCE AT JANUARY 1, 2015	6,136,000	\$ 61,360,000	\$ 17,825,058	\$ 14,143,067	\$ 83,866	\$ 10,302,813	\$ 591,707	\$ 440,624	\$ (59,830)	\$ -	\$ 784,953	\$ 105,472,258
Adjustments of business combination under common control	-	-	-	-	-	-	-	-	-	717,777	-	717,777
BALANCE AT JANUARY 1, 2015 AS RESTATED	6,136,000	61,360,000	17,825,058	14,143,067	83,866	10,302,813	591,707	440,624	(59,830)	717,777	784,953	106,190,035
Appropriation of 2014 earnings	-	-	-	3,061,296	-	(3,061,296)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(3,135,936)	-	-	-	(341,260)	-	(3,477,196)
Cash dividends	408,000	4,080,000	-	-	-	(4,080,000)	-	-	-	-	-	-
Stock dividends	140,000	1,400,000	980,000	-	-	-	-	-	-	-	-	2,380,000
Capital increase	-	-	334,015	-	-	-	-	-	-	942	-	334,957
Share-based payment arrangements involving ESFHC's common stock	-	-	-	-	-	-	12,267	218	-	-	(146,447)	(218,483)
Acquisition of interest in subsidiary	-	-	-	-	-	11,908,600	-	-	-	758,682	62,612	12,729,894
Net income for the year ended December 31, 2015	-	-	-	-	-	-	-	-	-	-	-	-
Other comprehensive income for the year ended December 31, 2015, net of income tax	-	-	-	-	-	(125,649)	493,333	6,781	(85,103)	(2,897)	32,674	319,139
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-	11,782,951	493,333	6,781	(85,103)	755,785	95,286	13,049,033
BALANCE AT DECEMBER 31, 2015 AS RESTATED	6,684,000	66,840,000	19,139,073	17,204,363	83,866	11,724,011	1,097,307	447,623	(144,933)	1,133,244	733,792	118,258,346
Appropriation of 2015 earnings	-	-	-	3,517,203	-	(3,517,203)	-	-	-	-	-	-
Legal reserve	-	-	-	-	-	(2,854,268)	-	-	-	(487,313)	-	(3,341,581)
Cash dividends	534,700	5,347,000	-	-	-	(5,347,000)	-	-	-	-	-	-
Stock dividends	-	-	348,324	-	-	-	-	-	-	195	-	348,519
Share-based payment arrangements involving ESFHC's common stock	-	-	-	-	-	-	-	-	-	-	(8,125)	(8,125)
Cash dividends distributed by subsidiary	-	-	-	-	-	-	-	-	-	-	104,206	104,206
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	(151,241)	(151,241)
Net income for the year ended December 31, 2016	-	-	-	-	-	13,265,263	-	-	-	146,088	-	13,260,110
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	-	(214,635)	(1,240,584)	(306,548)	189,815	-	(14,993)	(1,586,945)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	-	13,050,628	(1,240,584)	(306,548)	189,815	146,088	(166,234)	11,673,165
Business combination under common control	44,183	441,830	350,384	-	-	-	-	-	-	(792,214)	-	-
BALANCE AT DECEMBER 31, 2016	7,262,883	\$ 72,628,830	\$ 19,837,781	\$ 20,721,566	\$ 83,866	\$ 13,056,168	\$ (143,277)	\$ 141,075	\$ 44,882	\$ -	\$ 663,639	\$ 127,034,530

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

(With Deloitte & Touche auditors' report dated March 6, 2017)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 15,431,475	\$ 14,677,275
Adjustments for:		
Depreciation expenses	1,006,524	883,099
Amortization expenses	445,750	309,572
Bad-debt expenses	3,498,794	3,557,240
Gains on financial assets and liabilities at fair value through profit or loss	(5,459,684)	(7,023,386)
Interest expense	11,111,075	12,383,085
Interest revenue	(29,530,082)	(29,636,188)
Dividend income	(194,042)	(169,363)
Provision (reversal of provision) for losses on guarantees	(36,730)	8,549
Salary expenses on share-based payments	348,519	334,957
Losses (gains) on disposal of properties and equipment	8,563	(4,687)
Gains on disposal of investment properties	-	(2,562)
Gains on disposal of investments	(195,256)	(181,751)
Impairment losses on non-financial assets	125	-
Reversal of impairment losses on non-financial assets	-	(180)
Gains on disposal of foreclosed collaterals	-	(8,884)
Net changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank and call loans to other banks	1,910,456	(4,590,329)
Increase in financial assets at fair value through profit or loss	(7,304,617)	(50,974,811)
Decrease (increase) in securities purchased under resell agreements	755,910	(878,983)
Increase in receivables	(5,072,484)	(5,264,040)
Increase in discounts and loans	(99,950,321)	(91,181,192)
Increase in available-for-sale financial assets	(14,130,235)	(46,102,271)
Decrease in held-to-maturity financial assets	1,528,142	628,643
Decrease in other financial assets	12,768,246	9,407,737
Decrease (increase) in other assets	62,430	(3,831)
Increase (decrease) in due to the Central Bank and other banks	(18,654,124)	12,970,509
Increase (decrease) in financial liabilities at fair value through profit or loss	(1,864,186)	10,340,783
Increase (decrease) in securities sold under repurchase agreements	847,332	(5,083,132)
Increase (decrease) in payables	5,407,409	(263,093)
Increase in deposits and remittances	101,491,045	173,681,696
Increase (decrease) in other financial liabilities	5,431,455	(1,116,804)
Decrease in provision for employee benefits	(3,680)	(12,403)
Increase in other liabilities	84,817	226,756
Cash used in operations	(20,257,374)	(3,087,989)
Interest received	35,759,546	33,917,987
Dividend received	203,383	183,650

(Continued)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	2016	2015 (Restated)
Interest paid	\$ (12,406,427)	\$ (12,433,391)
Income tax paid	<u>(1,986,256)</u>	<u>(1,707,489)</u>
Net cash generated from operating activities	<u>1,312,872</u>	<u>16,872,768</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash outflow on acquisition of subsidiary (Note 45)	(140,651)	-
Payments for properties and equipment	(2,606,933)	(6,426,798)
Proceeds from disposal of properties and equipment	51	10,179
Increase in refundable deposits	-	(2,016,644)
Decrease in refundable deposits	1,410,365	-
Payments for intangible assets	(389,791)	(339,740)
Proceeds from disposal of foreclosed collaterals	-	8,997
Payments for investment properties	(56,613)	(234,705)
Proceeds from disposal of investment properties	-	10,665
Increase in other assets	<u>(3,810)</u>	<u>(4,565)</u>
Net cash used in investing activities	<u>(1,787,382)</u>	<u>(8,992,611)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from short-term borrowings	-	368,831
Repayments of short-term borrowings	(216,955)	-
Proceeds from issue of bank debentures	-	8,750,000
Repayments of bank debentures	(2,700,000)	(7,600,000)
Proceeds from long-term borrowings	2,582,320	372,823
Proceeds from guarantee deposits received	8,020	-
Refund of guarantee deposits received	-	(91,099)
Cash dividends paid to owners of the Bank	(3,341,581)	(3,477,196)
Capital increase	-	2,380,000
Cash dividends paid to non-controlling interests	(8,125)	-
Change in non-controlling interests (Note 44)	<u>-</u>	<u>(218,483)</u>
Net cash generated from (used in) financing activities	<u>(3,676,321)</u>	<u>484,876</u>
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>1,592,477</u>	<u>1,250,084</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,558,354)	9,615,117
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	<u>41,638,197</u>	<u>32,023,080</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>\$ 39,079,843</u>	<u>\$ 41,638,197</u>

(Continued)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars)

	December 31	
	2016	2015 (Restated)
RECONCILIATIONS OF THE AMOUNTS IN THE CONSOLIDATED STATEMENTS OF CASH FLOWS WITH THE EQUIVALENT ITEMS REPORTED IN THE CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2016 AND 2015		
Cash and cash equivalents in the consolidated balance sheets	\$ 36,714,344	\$ 36,545,545
Due from the Central Bank and call loans to other banks in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	2,332,963	5,092,652
Securities purchased under resell agreements in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	<u>32,536</u>	<u>-</u>
Cash and cash equivalents at the end of the year	<u>\$ 39,079,843</u>	<u>\$ 41,638,197</u>

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

(With Deloitte & Touche auditors’ report dated March 6, 2017)

(Concluded)

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(FOR THE YEAR ENDED DECEMBER 31, 2015 WAS RESTATED - Notes 1 and 46)

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

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

As of December 31, 2016, the Bank had a business department, an international banking department, a trust department, a credit card and payment division, an offshore banking unit (OBU), an insurance agent department, 6 overseas branches, and 136 domestic branches.

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

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

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

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

Union Commercial Bank PLC. (UCB) was founded in March 1994, under the Laws of the Kingdom of Cambodia. The head office of UCB was established in Phnom Penh; UCB also established 12 branches. UCB is engaged in banking activities permitted by the Laws of the Kingdom of Cambodia. The Bank acquired 70% equity interest of UCB on August 28, 2013, and on December 29, 2015, the Bank acquired from non-controlling interests for additional 5% shares of UCB, which increased its continuing interest from 70% to 75%. Please refer to Note 44.

For more information on E.SUN Bank (China), Ltd. (ESBC), please refer to Note 47.

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

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

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

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

For the years ended December 31, 2016 and 2015, the average number of employees of the Company (ESBC, UCB and BankPro excluded) was 7,754 and 7,310, respectively. For the years ended December 31, 2016 and 2015, the average number of employees of ESBC, UCB and BankPro was 623 and 422, respectively.

2. APPROVAL OF FINANCIAL STATEMENTS

The board of directors approved and authorized for issue of the consolidated financial statements in their meeting on March 1, 2017.

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

- a. Influences of the Company had not yet applied the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017 and the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms had not yet effect

The Company had not yet applied Order No. 1050026834 issued by the FSC, the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017, and the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

Except for the following, the initial application of the above New IFRSs in 2017 and related amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms would not have any material impact on the Company's accounting policies:

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of goodwill.

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

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

The disclosures of impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

- b. Influences of the Company had not yet applied the new IFRSs in issue but not yet endorsed by FSC

The Company has not applied the following IFRSs issued by the International Accounting Standards Board (IASB) but not yet endorsed by the FSC.

The FSC announced that the Company should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarifications to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019
Amendment to IAS 7 “Disclosure Initiative”	January 1, 2017
Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”	January 1, 2017
Amendments to IAS 40 “Transfers of Investment Property”	January 1, 2018
IFRIC 22 “Foreign Currency Transactions and Advance Consideration”	January 1, 2018

(Concluded)

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

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

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

1) IFRS 9 “Financial Instruments”

Recognition and measurement of financial assets

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

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

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

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

Impairment of financial assets

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

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

Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required.

2) IFRS 15 “Revenue from Contracts with Customers” and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 “Revenue”, IAS 11 “Construction Contracts” and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, the Company shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and
- Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, the Company may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

3) IFRS 16 “Leases”

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

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

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

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

4) Amendments to IAS 40 “Transfers of Investment Property”

The amendments clarify that the Company should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Company may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist at the date of initial application. The Company is also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Company may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value.

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

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

Basis of Consolidation

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

The accounting policies of the Bank and subsidiaries are consistent.

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

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

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

Foreign-currency Transactions

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

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

Current and Noncurrent Assets and Liabilities

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

Cash and Cash Equivalents

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

Financial Instruments

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

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

Financial assets

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

a. Measurement category

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

1) Financial assets at FVTPL

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

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

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

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

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

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

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

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

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

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

3) Held-to-maturity financial assets

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

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

4) Loans and receivables

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

b. Impairment of financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

c. Derecognition of financial assets

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

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

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

Equity instruments

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

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

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

Financial liabilities

a. Subsequent measurement

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

1) Financial liabilities at FVTPL

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

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

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

- The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

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

2) Financial guarantee contracts

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

b. Derecognition of financial liabilities

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

Derivatives

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

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

Overdue Loans

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

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

Securities Purchased/Sold Under Resell/Repurchase Agreements

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

Investment Properties

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

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

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

Properties and Equipment

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

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

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

Leasing

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

The Company as a lessor

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

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

The Company as a lessee

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

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

Goodwill

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

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

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

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

Intangible Assets Other Than Goodwill

Separate acquisition

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

Acquisition as part of a business combination

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

Derecognition

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

Foreclosed Collaterals

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

Provisions

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

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

Recognition of Revenue

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

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

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

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

Employee Benefits

Short-term employee benefits

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

Post-employment benefits

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

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

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

Preferential interest deposits for employees

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

Share-based Payment

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

Taxation

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

Current income tax

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

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

Deferred income tax

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

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

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

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

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

Current and deferred tax for the year

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

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

Business Combination

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

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

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

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

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

Government Grants

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

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

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

a. Impairment losses on loans

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

b. Impairment of goodwill

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	\$ 11,441,836	\$ 11,582,933
Checks for clearing	9,731,186	3,224,135
Due from banks	15,529,801	21,728,279
Cash in transit	<u>11,521</u>	<u>10,198</u>
	<u>\$ 36,714,344</u>	<u>\$ 36,545,545</u>

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2016 and 2015 are shown in the consolidated statements of cash flows.

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

	December 31	
	2016	2015
Deposit reserves - account A	\$ 16,177,847	\$ 19,503,943
Deposit reserves - account B	36,116,280	35,927,275
Reserves for deposits - foreign currency deposits	322,790	276,360
Due from the Central Bank - other	7,385,911	8,514,237
Deposit in the Central Bank - deposits of government agencies	7,507	11,269
Call loans to banks	2,129,228	2,847,850
Banks overdrafts	594,056	26,668
Trade finance advance - interbank	<u>-</u>	<u>298,800</u>
	62,733,619	67,406,402
Less: Allowance for possible losses	<u>(1,849)</u>	<u>(4,487)</u>
	<u>\$ 62,731,770</u>	<u>\$ 67,401,915</u>

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

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

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
<u>Held-for-trading financial assets</u>		
Negotiable certificates of deposits	\$ 232,198,142	\$ 213,147,107
Commercial paper	20,474,875	31,421,813
Currency swap contracts	4,157,975	2,749,243
Currency option contracts	3,145,626	12,214,549
Interest rate swap contracts	1,094,587	797,194
Forward contracts	630,755	450,876
Treasury bills	499,064	-
Listed stocks	331,154	87,716
Futures exchange margins	57,132	78,906
Metal commodity swap contracts	6,045	4,561
Non-deliverable forward contracts	4,765	735,484
Cross-currency swap contracts	3,253	-
Bank debentures	-	1,511,244
Overseas bonds	-	1,128,577
Convertible corporate bonds	-	28,950
	<u>262,603,373</u>	<u>264,356,220</u>
<u>Financial assets designated as at fair value through profit or loss</u>		
Corporate bonds	59,813,073	41,094,464
Bank debentures	42,858,597	42,728,954
Overseas government bonds	802,094	369,472
	<u>103,473,764</u>	<u>84,192,890</u>
	<u>\$ 366,077,137</u>	<u>\$ 348,549,110</u>
<u>Held-for-trading financial liabilities</u>		
Currency swap contracts	\$ 3,541,819	\$ 2,103,497
Currency option contracts	2,709,738	11,855,302
Interest rate swap contracts	1,767,733	623,695
Forward contracts	631,133	611,540
Cross-currency swap contracts	8,630	-
Non-deliverable forward contracts	4,222	530,175
Metal commodity swap contracts	2,751	-
Assets swap option contracts	-	618
	<u>8,666,026</u>	<u>15,724,827</u>
<u>Financial liabilities designated as at fair value through profit or loss</u>		
Bank debentures (Note 23)	33,111,455	19,769,915
Structured products	314,222	341,494
	<u>33,425,677</u>	<u>20,111,409</u>
	<u>\$ 42,091,703</u>	<u>\$ 35,836,236</u>

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

The contract (nominal) amounts of derivative transactions by the Company as of December 31, 2016 and 2015 were as follows:

	December 31	
	2016	2015
Currency swap contracts	\$ 308,819,971	\$ 200,411,338
Currency option contracts	294,641,208	841,736,971
Interest rate swap contracts	61,584,546	72,427,217
Forward contracts	29,544,383	41,833,525
Cross-currency swap contracts	1,613,950	-
Non-deliverable forward contracts	267,388	16,613,040
Metal commodity swap contracts	182,903	74,639
Assets swap option contracts	-	30,000

The open positions of futures transactions of the Company as of December 31, 2016 and 2015, were as follows:

		December 31, 2016			
		Open Position		Contract Amounts or Premium Paid	Fair Values
Items	Products	Buy/Sell	Number of Contracts	(Charged)	
Futures contracts	MCU	Buy	15	\$ 68,647	\$ 66,978
	MCU	Sell	31	135,688	138,381
	MNI	Sell	36	73,652	69,695
		December 31, 2015			
		Open Position		Contract Amounts or Premium Paid	Fair Values
Items	Products	Buy/Sell	Number of Contracts	(Charged)	
Futures contracts	MCU	Buy	19	\$ 76,088	\$ 74,047
	MCU	Sell	3	11,606	11,683

9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

Securities acquired for \$173,470 thousand and \$896,844 thousand under resell agreements as of December 31, 2016 and 2015, respectively, will subsequently be sold for \$174,486 thousand and \$901,122 thousand, respectively.

10. RECEIVABLES, NET

	December 31	
	2016	2015
Receivables on credit cards	\$ 55,735,074	\$ 45,458,705
Accounts receivable factored without recourse	12,186,866	17,750,474
Accrued interest	3,589,264	3,987,370
Accounts receivable	3,583,700	3,784,765
Acceptances	1,467,246	1,600,646
Others	<u>1,282,868</u>	<u>773,619</u>
	77,845,018	73,355,579
Less: Allowance for possible losses	<u>(1,852,786)</u>	<u>(1,832,168)</u>
	<u>\$ 75,992,232</u>	<u>\$ 71,523,411</u>

The allowances for possible losses on receivables assessed for impairment as of December 31, 2016 and 2015, were as follows:

Items		December 31, 2016		December 31, 2015	
		Receivables	Allowance for Possible Losses	Receivables	Allowance for Possible Losses
With objective evidence of impairment	Assessment for individual impairment	\$ 494,613	\$ 109,790	\$ 42,458	\$ 7,357
	Assessment for collective impairment	1,943,729	598,314	1,815,653	546,828
With no objective evidence of impairment	Assessment for collective impairment	73,197,241	1,144,682	69,335,368	1,277,983
Total		75,635,583	1,852,786	71,193,479	1,832,168

The changes in allowance for possible losses are summarized below:

	For the Year Ended December 31	
	2016	2015
Balance, January 1	\$ 1,832,168	\$ 1,862,384
Provision (reversal of provision) for possible losses	348,234	(136,069)
Write-offs	(839,389)	(444,474)
Recovery of written-off receivables	514,875	541,153
Effects of exchange rate changes and other changes	<u>(3,102)</u>	<u>9,174</u>
Balance, December 31	<u>\$ 1,852,786</u>	<u>\$ 1,832,168</u>

11. DISCOUNTS AND LOANS, NET

	December 31	
	2016	2015
Loans		
Short-term	\$ 280,567,425	\$ 258,399,651
Medium-term	277,467,837	261,176,649
Long-term	569,144,913	510,987,282
Overdue loans	2,901,553	647,231
Bills negotiated and discounts	<u>2,974,757</u>	<u>3,740,509</u>
	1,133,056,485	1,034,951,322
Less: Allowance for possible losses	(14,730,154)	(12,852,020)
Less: Adjustment of premium or discount	<u>(177,662)</u>	<u>(104,582)</u>
	<u>\$ 1,118,148,669</u>	<u>\$ 1,021,994,720</u>

As of December 31, 2016 and 2015, the loan and credit balances of the Bank, for which the accrual of interest revenues was discontinued, amounted to \$1,394,641 thousand and \$581,578 thousand, respectively. The unrecognized interest revenues on these loans and credits of the Bank were \$22,947 thousand and \$29,470 thousand for the years ended December 31, 2016 and 2015, respectively.

The allowances for possible losses on discounts and loans assessed for impairment as of December 31, 2016 and 2015 were as follows:

Items		December 31, 2016		December 31, 2015	
		Discounts and Loans	Allowance for Possible Losses	Discounts and Loans	Allowance for Possible Losses
With objective evidence of impairment	Assessment for individual impairment	\$ 2,491,806	\$ 940,790	\$ 1,710,249	\$ 1,108,977
	Assessment for collective impairment	6,011,972	2,346,063	2,939,081	1,686,102
With no objective evidence of impairment	Assessment for collective impairment	1,124,552,707	11,443,301	1,030,301,992	10,056,941
Total		1,133,056,485	14,730,154	1,034,951,322	12,852,020

The changes in allowance for possible losses are summarized below:

	For the Year Ended December 31	
	2016	2015
Balance, January 1	\$ 12,852,020	\$ 10,541,495
Provision for possible losses	3,153,096	3,701,452
Write-offs	(1,840,187)	(2,042,155)
Recovery of written-off credits	608,561	583,704
Effects of exchange rate changes and other changes	<u>(43,336)</u>	<u>67,524</u>
Balance, December 31	<u>\$ 14,730,154</u>	<u>\$ 12,852,020</u>

The bad-debt expenses and provision for losses on guarantees for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Reversal of provision for possible losses on call loans to other banks	\$ (2,544)	\$ (8,243)
Provision for possible losses on discounts and loans	3,153,096	3,701,452
Provision (reversal of provision) for possible losses on receivables	348,234	(136,069)
Provision for possible losses on remittance	8	100
Provision (reversal of provision) for possible losses on guarantees	<u>(36,730)</u>	<u>8,549</u>
	<u>\$ 3,462,064</u>	<u>\$ 3,565,789</u>

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

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	December 31	
	2016	2015
Bank debentures	\$ 67,241,672	\$ 44,605,100
Government bonds	43,455,005	56,462,559
Corporate bonds	23,123,097	23,644,070
Listed stocks	4,500,377	3,621,445
Financial product	1,850,316	-
Overseas bonds	928,816	1,427,117
Beneficial securities under securitization	<u>-</u>	<u>16,038</u>
	<u>\$ 141,099,283</u>	<u>\$ 129,776,329</u>

As of December 31, 2016 and 2015, the available-for-sale financial assets, which amounted to \$9,190,252 thousand and \$7,970,663 thousand, respectively, had been sold under repurchase agreements.

13. HELD-TO-MATURITY FINANCIAL ASSETS, NET

	December 31	
	2016	2015
Overseas bonds	\$ 2,072,989	\$ 3,060,784
Bank debentures	1,141,265	-
Corporate bonds	271,596	441,320
Overseas certificates of deposits	80,697	65,800
Government bonds	<u>50,413</u>	<u>1,721,935</u>
	<u>\$ 3,616,960</u>	<u>\$ 5,289,839</u>

As of December 31, 2015, the held-to-maturity financial assets, which amounted to \$253,680 thousand, had been sold under repurchase agreements.

In 2015, the Company disposed of some debt instruments because of the severe deterioration of debtors' credits and other concerns. However, the amount disposed of was only a small portion of the held-to-maturity financial assets, and the Company had no intention to reclassify the rest of these investments. As of December 31, 2016 and 2015, the accumulated disposal amounts from the past three years were both \$21,067 thousand; the accumulated realized losses on disposal were both \$2,154 thousand in each year; the accumulated disposal amounts were 0.58% and 0.40% of held-to-maturity financial assets, respectively.

14. OTHER FINANCIAL ASSETS, NET

	December 31	
	2016	2015
Due from banks	\$ 25,471,820	\$ 39,029,667
Debt instruments with no active market, net	1,291,160	987,000
Financial assets carried at cost, net	537,881	542,473
Others	<u>760</u>	<u>3,990</u>
	<u>\$ 27,301,621</u>	<u>\$ 40,563,130</u>

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

Debt instruments with no active market were as follows:

	December 31	
	2016	2015
Corporate bonds	\$ 645,580	\$ 658,000
Bank debentures	<u>645,580</u>	<u>329,000</u>
	<u>\$ 1,291,160</u>	<u>\$ 987,000</u>

Due from banks were deposits with restriction on early termination and time deposits with maturities longer than three months.

15. PROPERTIES AND EQUIPMENT, NET

	December 31	
	2016	2015
<u>Carrying amount</u>		
Land	\$ 13,278,624	\$ 12,926,039
Buildings	7,115,511	5,325,034
Computers	1,865,455	1,438,427
Transportation equipment	232,305	208,446
Miscellaneous equipment	1,051,075	985,794
Prepayments for properties and equipment	<u>2,242,411</u>	<u>5,272,606</u>
	<u>\$ 25,785,381</u>	<u>\$ 26,156,346</u>

	Land	Buildings	Computers	Transportation Equipment	Miscellaneous Equipment	Prepayments	Total
<u>Cost</u>							
Balance, January 1, 2016	\$ 12,926,039	\$ 8,314,671	\$ 3,863,520	\$ 662,451	\$ 2,583,598	\$ 5,272,606	\$ 33,622,885
Acquisition through business combination (Note 45)	-	-	6,661	-	9,164	-	15,825
Addition	83,184	693,237	799,645	68,942	275,361	711,572	2,631,941
Disposal	-	(6,720)	(366,146)	(23,016)	(46,643)	-	(442,525)
Net exchange difference	(5,525)	(1,488)	(13,091)	(2,052)	(19,204)	(101,160)	(142,520)
Reclassification and others	<u>274,926</u>	<u>1,409,331</u>	<u>10,528</u>	<u>3,460</u>	<u>71,819</u>	<u>(3,640,607)</u>	<u>(1,870,543)</u>
Balance, December 31, 2016	<u>\$ 13,278,624</u>	<u>\$ 10,409,031</u>	<u>\$ 4,301,117</u>	<u>\$ 709,785</u>	<u>\$ 2,874,095</u>	<u>\$ 2,242,411</u>	<u>\$ 33,815,063</u>
Balance, January 1, 2015	\$ 12,163,573	\$ 7,853,937	\$ 3,375,474	\$ 636,714	\$ 2,105,298	\$ 916,967	\$ 27,051,963
Addition	396,793	275,002	619,231	63,752	429,392	4,671,508	6,455,678
Disposal	(4,052)	(618)	(179,571)	(41,060)	(41,451)	-	(266,752)
Net exchange difference	10,944	2,947	2,230	1,994	982	4,356	23,453
Reclassification and others	<u>358,781</u>	<u>183,403</u>	<u>46,156</u>	<u>1,051</u>	<u>89,377</u>	<u>(320,225)</u>	<u>358,543</u>
Balance, December 31, 2015	<u>\$ 12,926,039</u>	<u>\$ 8,314,671</u>	<u>\$ 3,863,520</u>	<u>\$ 662,451</u>	<u>\$ 2,583,598</u>	<u>\$ 5,272,606</u>	<u>\$ 33,622,885</u>
<u>Accumulated depreciation and impairment</u>							
Balance, January 1, 2016	\$ -	\$ (2,989,637)	\$ (2,425,093)	\$ (454,005)	\$ (1,597,804)	\$ -	\$ (7,466,539)
Acquisition through business combination (Note 45)	-	-	(6,116)	-	(7,681)	-	(13,797)
Disposal	-	306	364,976	22,967	45,662	-	433,911
Depreciation expenses	-	(299,030)	(372,557)	(47,321)	(270,155)	-	(989,063)
Net exchange difference	-	389	3,128	1,043	6,958	-	11,518
Reclassification and others	<u>-</u>	<u>(5,548)</u>	<u>-</u>	<u>(164)</u>	<u>-</u>	<u>-</u>	<u>(5,712)</u>
Balance, December 31, 2016	<u>\$ -</u>	<u>\$ (3,293,520)</u>	<u>\$ (2,435,662)</u>	<u>\$ (477,480)</u>	<u>\$ (1,823,020)</u>	<u>\$ -</u>	<u>\$ (8,029,682)</u>
Balance, January 1, 2015	\$ -	\$ (2,613,205)	\$ (2,301,970)	\$ (446,506)	\$ (1,435,542)	\$ -	\$ (6,797,223)
Disposal	-	535	179,568	39,726	41,431	-	261,260
Depreciation expenses	-	(327,892)	(301,201)	(45,644)	(202,252)	-	(876,989)
Net exchange difference	-	(687)	(1,490)	(1,581)	(1,441)	-	(5,199)
Reclassification and others	<u>-</u>	<u>(48,388)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,388)</u>
Balance, December 31, 2015	<u>\$ -</u>	<u>\$ (2,989,637)</u>	<u>\$ (2,425,093)</u>	<u>\$ (454,005)</u>	<u>\$ (1,597,804)</u>	<u>\$ -</u>	<u>\$ (7,466,539)</u>

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

Buildings	
Main buildings	20 to 50 years
Equipment installed in buildings	10 to 15 years
Computers	3 to 8 years
Transportation equipment	4 to 10 years
Miscellaneous equipment	1 to 20 years

16. INVESTMENT PROPERTIES, NET

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Land	\$ 327,887	\$ 603,213
Buildings	<u>1,967,901</u>	<u>113,898</u>
	<u>\$ 2,295,788</u>	<u>\$ 717,111</u>

	Land	Buildings	Total
<u>Cost</u>			
Balance, January 1, 2016	\$ 603,220	\$ 138,954	\$ 742,174
Addition	-	56,613	56,613
Net exchange difference	(396)	(149,081)	(149,477)
Reclassification	<u>(274,926)</u>	<u>1,957,867</u>	<u>1,682,941</u>
Balance, December 31, 2016	<u>\$ 327,898</u>	<u>\$ 2,004,353</u>	<u>\$ 2,332,251</u>
Balance, January 1, 2015	\$ 729,905	\$ 255,505	\$ 985,410
Addition	196,799	37,906	234,705
Disposal	(7,898)	(578)	(8,476)
Reclassification	<u>(315,586)</u>	<u>(153,879)</u>	<u>(469,465)</u>
Balance, December 31, 2015	<u>\$ 603,220</u>	<u>\$ 138,954</u>	<u>\$ 742,174</u>
<u>Accumulated depreciation and impairment</u>			
Balance, January 1, 2016	\$ (7)	\$ (25,056)	\$ (25,063)
Depreciation expenses	-	(17,461)	(17,461)
Impairment losses	(4)	(121)	(125)
Net exchange difference	-	638	638
Reclassification	<u>-</u>	<u>5,548</u>	<u>5,548</u>
Balance, December 31, 2016	<u>\$ (11)</u>	<u>\$ (36,452)</u>	<u>\$ (36,463)</u>
Balance, January 1, 2015	\$ (12)	\$ (67,881)	\$ (67,893)
Depreciation expenses	-	(6,110)	(6,110)
Disposal	-	373	373
Reversal of impairment losses recognized in profit or loss	5	175	180
Reclassification	<u>-</u>	<u>48,387</u>	<u>48,387</u>
Balance, December 31, 2015	<u>\$ (7)</u>	<u>\$ (25,056)</u>	<u>\$ (25,063)</u>

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

As of December 31, 2016 and 2015, the fair values of investment properties were \$3,356,576 thousand and \$1,363,279 thousand, respectively. The fair values were based on the valuation of discounted cash flow analysis method from external real estate appraiser joint firm (that were not the Company's related parties), and the comparison of price of the comparable property from external appraisal company and the Company's appraisal center.

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

	For the Year Ended December 31	
	2016	2015
Rental income from investment properties	\$ 20,234	\$ 26,920
Direct operating expenses of investment properties that generate rental income	(4,705)	(4,894)
Direct operating expenses of investment properties that do not generate rental income	<u>(1,424)</u>	<u>(6,827)</u>
	<u>\$ 14,105</u>	<u>\$ 15,199</u>

17. INTANGIBLE ASSETS, NET

	December 31	
	2016	2015
Goodwill	\$ 4,518,619	\$ 4,465,432
Computer software	918,975	693,149
Banking licenses	514,915	524,821
Core deposits	126,950	190,813
Developed technology	54,727	-
Customer relationship	<u>28,149</u>	<u>6,957</u>
	<u>\$ 6,162,335</u>	<u>\$ 5,881,172</u>

	Goodwill	Computer Software	Banking Licenses	Core Deposits	Developed Technology	Customer Relationship	Total
Balance, January 1, 2016	\$ 4,465,432	\$ 693,149	\$ 524,821	\$ 190,813	\$ -	\$ 6,957	\$ 5,881,172
Acquisition through business combination (Note 45)	65,646	467	-	-	60,200	23,900	150,213
Separate acquisition	-	426,116	-	-	-	-	426,116
Amortization expenses	-	(372,990)	-	(60,900)	(5,473)	(2,708)	(442,071)
Reclassification and others	-	173,266	-	-	-	-	173,266
Net exchange difference	<u>(12,459)</u>	<u>(1,033)</u>	<u>(9,906)</u>	<u>(2,963)</u>	<u>-</u>	<u>-</u>	<u>(26,361)</u>
Balance, December 31, 2016	<u>\$ 4,518,619</u>	<u>\$ 918,975</u>	<u>\$ 514,915</u>	<u>\$ 126,950</u>	<u>\$ 54,727</u>	<u>\$ 28,149</u>	<u>\$ 6,162,335</u>
Balance, January 1, 2015	\$ 4,440,753	\$ 423,938	\$ 505,200	\$ 244,684	\$ -	\$ 7,492	\$ 5,622,067
Separate acquisition	-	403,702	-	-	-	-	403,702
Amortization expenses	-	(245,509)	-	(60,234)	-	(535)	(306,278)
Reclassification and others	-	110,923	-	-	-	-	110,923
Net exchange difference	<u>24,679</u>	<u>95</u>	<u>19,621</u>	<u>6,363</u>	<u>-</u>	<u>-</u>	<u>50,758</u>
Balance, December 31, 2015	<u>\$ 4,465,432</u>	<u>\$ 693,149</u>	<u>\$ 524,821</u>	<u>\$ 190,813</u>	<u>\$ -</u>	<u>\$ 6,957</u>	<u>\$ 5,881,172</u>

The above intangible assets with limited useful lives are amortized on a straight-line basis by the useful lives as follows:

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

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

18. OTHER ASSETS, NET

	December 31	
	2016	2015
Refundable deposits, net	\$ 3,204,423	\$ 4,639,576
Prepaid expenses	358,483	190,638
Others	<u>45,789</u>	<u>20,311</u>
	<u>\$ 3,608,695</u>	<u>\$ 4,850,525</u>

19. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2016	2015
Call loans from banks	\$ 46,277,361	\$ 63,883,482
Deposits from Chunghwa Post Co., Ltd.	3,209,433	3,393,345
Call loans from the Central Bank	1,613,950	987,000
Due to banks	1,081,042	2,575,087
Banks overdrafts	304,446	305,120
Due to the Central Bank	<u>29,774</u>	<u>26,096</u>
	<u>\$ 52,516,006</u>	<u>\$ 71,170,130</u>

20. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold for \$8,881,723 thousand and \$8,034,391 thousand under repurchase agreements as of December 31, 2016 and 2015, respectively, would subsequently be purchased for \$8,912,263 thousand and \$8,069,478 thousand, respectively.

21. PAYABLES

	December 31	
	2016	2015
Checks for clearing	\$ 9,731,186	\$ 3,224,135
Accrued expenses	3,447,687	2,716,830
Factored accounts payable	2,553,922	1,800,560
Accrued interest	1,928,642	1,992,871
Acceptances	1,459,995	1,576,654
Accounts payable	1,381,640	3,023,822
Collections payable	556,620	699,582
Payable on credit cards	554,322	559,364
Tax payable	327,945	293,367
Others	<u>1,696,279</u>	<u>2,209,906</u>
	<u>\$ 23,638,238</u>	<u>\$ 18,097,091</u>

22. DEPOSITS AND REMITTANCES

	December 31	
	2016	2015
Deposits		
Checking	\$ 15,701,871	\$ 12,459,207
Demand	435,387,485	405,328,262
Savings - demand	465,727,536	420,709,502
Time	363,479,149	344,290,558
Negotiable certificates of deposits	6,981,600	1,378,600
Savings - time	262,825,365	264,452,817
Treasury deposits	8,753,254	8,581,748
Remittances	<u>694,787</u>	<u>859,308</u>
	<u>\$ 1,559,551,047</u>	<u>\$ 1,458,060,002</u>

23. BANK DEBENTURES

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

	December 31	
	2016	2015
Two types of subordinated bonds issued on April 3, 2009; interest rate at (a) 2.15% for Type A bond and (b) 2.50% for Type B bond; interest payable annually for both bond types; principal repayable on maturity (5.5 years for Type A bond and 7 years for Type B bond after the issue date).	\$ -	\$ 300,000
Subordinated bonds issued on July 17, 2009; 2.50% interest payable annually; principal repayable on maturity (7 years after the issue date).	-	900,000
		(Continued)

	December 31	
	2016	2015
Subordinated bonds issued on October 20, 2009; 2.35% interest payable annually; principal repayable on maturity (7 years after the issue date).	\$ -	\$ 1,500,000
Subordinated bonds issued on May 28, 2010; 2.20% interest payable annually; principal repayable on maturity (7 years after the issue date).	3,000,000	3,000,000
Subordinated bonds issued on July 13, 2010; 2.20% interest payable annually; principal repayable on maturity (7 years after the issue date).	2,500,000	2,500,000
Subordinated bonds issued on May 24, 2011; 1.73% interest payable annually; principal repayable on maturity (7 years after the issue date).	2,100,000	2,100,000
Subordinated bonds issued on October 28, 2011; 1.80% interest payable annually; principal repayable on maturity (7 years after the issue date).	2,900,000	2,900,000
Subordinated bonds issued on April 27, 2012; 1.58% interest payable annually; principal repayable on maturity (7 years after the issue date).	2,280,000	2,280,000
Subordinated bonds issued on June 28, 2012; 1.68% interest payable annually; principal repayable on maturity (10 years after the issue date).	2,720,000	2,720,000
Two types of subordinated bonds issued on August 27, 2012; interest rate at (a) 1.50% for type A bond and (b) 1.62% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).	8,000,000	8,000,000
Two types of subordinated bonds issued on May 24, 2013; interest rate at (a) 1.55% for type A bond and (b) 1.70% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).	2,300,000	2,300,000
Subordinated bonds issued on August 28, 2013; 1.75% interest payable annually; principal repayable on maturity (7 years after the issue date).	2,700,000	2,700,000
Two types of subordinated bonds issued on December 19, 2013; interest rate at (a) 1.75% for type A bond and (b) 1.85% for type B bond; interest payable annually for both bond types; principal repayable on maturity (5.5 years for type A bond and 7 years for type B bond after the issue date).	1,500,000	1,500,000
Two types of subordinated bonds issued on March 7, 2014; interest rate at (a) 1.80% for type A bond and (b) 1.95% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date)	3,500,000	3,500,000

(Continued)

	December 31	
	2016	2015
Two types of subordinated bonds issued on April 30, 2015; interest rate at (a) 1.80% for type A bond and (b) 2.10% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).	\$ 5,000,000	\$ 5,000,000
Two types of subordinated bonds issued on September 29, 2015; interest rate at (a) 1.65% for type A bond and (b) 2.00% for type B bond; interest payable annually for both bond types; principal repayable on maturity (7 years for type A bond and 10 years for type B bond after the issue date).	<u>3,750,000</u>	<u>3,750,000</u>
	<u>\$ 42,250,000</u>	<u>\$ 44,950,000</u> (Concluded)

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

	December 31	
	2016	2015
Unsecured bonds USD-denominated issued on August 27, 2014	\$ -	\$ 10,623,138
Unsecured USD-denominated subordinated bonds issued on May 27, 2015	2,937,252	2,897,425
Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on May 27, 2015	2,552,508	2,789,284
Unsecured USD-denominated subordinated bonds issued on October 28, 2015	2,172,550	2,133,291
Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on October 28, 2015	1,326,842	1,326,777
Unsecured USD-denominated subordinated bonds issued on January 22, 2016	8,207,951	-
Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on January 22, 2016	7,385,711	-
Unsecured USD-denominated subordinated bonds issued on June 6, 2016	2,776,330	-
Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on June 6, 2016	2,816,048	-
Unsecured noncumulative perpetual USD-denominated subordinated bonds issued on December 29, 2016	<u>2,936,263</u>	<u>-</u>
	<u>\$ 33,111,455</u>	<u>\$ 19,769,915</u>

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

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

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

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

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

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

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

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

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

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

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

To increase the Bank's capital adequacy ratio and to strengthen its capital structure, the Bank applied for the issuance of noncumulative perpetual subordinated bank debentures and long-term subordinated bank debentures amounting to NT\$10,000,000 thousand (or foreign currency equivalent); and bank debentures amounting to US\$300,000 thousand. The applications were approved by the FSC on April 15, 2016 and December 9, 2016, respectively.

As of the date of the consolidated financial statements were authorized for issue, debentures amounting to NT\$960,000 thousand and US\$300,000 thousand had not yet been issued.

24. OTHER FINANCIAL LIABILITIES

	December 31	
	2016	2015
Principal of structured products	\$ 5,896,546	\$ 465,090
Long-term borrowing	3,292,458	723,800
Guarantee deposits received	304,154	296,133
Short-term borrowing	161,395	378,350
Appropriations for loans	-	2
	<u>\$ 9,654,553</u>	<u>\$ 1,863,375</u>

25. PROVISIONS

	December 31	
	2016	2015
Provision for employee benefits	\$ 269,443	\$ 288,409
Provision for losses on guarantees	124,146	160,947
Others	<u>24,219</u>	<u>22,899</u>
	<u>\$ 417,808</u>	<u>\$ 472,255</u>

26. POST-EMPLOYMENT BENEFIT PLAN

a. Defined contribution plan

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

The Company recognized expenses of \$273,474 thousand and \$237,471 thousand in the consolidated statements of comprehensive income for the years ended December 31, 2016 and 2015, respectively, in accordance with the defined contribution plan.

b. Defined benefit plan

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

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

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

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

	December 31	
	2016	2015
Present value of defined benefit obligation	\$ 1,734,591	\$ 1,674,839
Fair value of plan assets	<u>(1,465,148)</u>	<u>(1,386,430)</u>
Net defined benefit liability (part of provision for employee benefits)	<u>\$ 269,443</u>	<u>\$ 288,409</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Balance at January 1, 2015	\$ 1,507,468	\$ (1,332,806)	\$ 174,662
Service cost			
Current service cost	21,394	-	21,394
Net interest expense (income)	<u>30,594</u>	<u>(27,391)</u>	<u>3,203</u>
Recognized in profit or loss	<u>51,988</u>	<u>(27,391)</u>	<u>24,597</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(37,988)	(37,988)
Actuarial loss - changes in financial assumptions	112,086	-	112,086
Actuarial loss - experience adjustments	<u>52,052</u>	<u>-</u>	<u>52,052</u>
Recognized in other comprehensive income	<u>164,138</u>	<u>(37,988)</u>	<u>126,150</u>
Contributions from the employer	<u>-</u>	<u>(37,000)</u>	<u>(37,000)</u>
Benefits paid	<u>(48,755)</u>	<u>48,755</u>	<u>-</u>
Balance at December 31, 2015	<u>1,674,839</u>	<u>(1,386,430)</u>	<u>288,409</u>
Acquisition through business combination (Note 45)	<u>24,414</u>	<u>(19,646)</u>	<u>4,768</u>
Service cost			
Current service cost	22,769	-	22,769
Net interest expense (income)	<u>27,014</u>	<u>(22,640)</u>	<u>4,374</u>
Recognized in profit or loss	<u>49,783</u>	<u>(22,640)</u>	<u>27,143</u>

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	\$ -	\$ (28,012)	\$ (28,012)
Actuarial gain - changes in financial assumptions	(25,058)	-	(25,058)
Actuarial loss - experience adjustments	<u>33,015</u>	<u>-</u>	<u>33,015</u>
Recognized in other comprehensive income	<u>7,957</u>	<u>(28,012)</u>	<u>(20,055)</u>
Contributions from the employer	<u>-</u>	<u>(30,822)</u>	<u>(30,822)</u>
Benefits paid	<u>(22,402)</u>	<u>22,402</u>	<u>-</u>
Balance at December 31, 2016	<u>\$ 1,734,591</u>	<u>\$ (1,465,148)</u>	<u>\$ 269,443</u> (Concluded)

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

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

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

	December 31	
	2016	2015
Discount rate	1.25%-1.70%	1.60%-1.90%
Expected rates of return on plan assets	1.70%	1.60%
Expected rates of future salary increase	2.50%-3.00%	2.00%-2.50%

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

	December 31	
	2016	2015
Discount rate(s)		
0.25% increase	<u>\$ (61,676)</u>	<u>\$ (63,464)</u>
0.25% decrease	<u>\$ 64,605</u>	<u>\$ 66,618</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 62,857</u>	<u>\$ 64,808</u>
0.25% decrease	<u>\$ (60,359)</u>	<u>\$ (62,107)</u>

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

As of December 31, 2016 and 2015, the expected contributions to the plan for the next year were \$30,622 thousand and \$37,500 thousand, respectively; the average durations of the defined benefit obligation were 8 to 14.73 years and 15.6 to 21 years, respectively.

27. OTHER LIABILITIES

	December 31	
	2016	2015
Advance receipts	\$ 1,283,830	\$ 1,176,141
Deferred revenue	630,211	431,043
Others	<u>21,524</u>	<u>7,182</u>
	<u>\$ 1,935,565</u>	<u>\$ 1,614,366</u>

28. NET INTEREST

	For the Year Ended December 31	
	2016	2015
Interest revenue		
From discounts and loans	\$ 23,563,270	\$ 23,070,422
From investments	2,626,756	2,038,332
From revolving interests of credit cards	1,759,801	1,872,826
From due from banks and call loans to banks	1,325,342	2,016,183
Others	<u>254,913</u>	<u>638,425</u>
	<u>29,530,082</u>	<u>29,636,188</u>
Interest expense		
From deposits	(9,199,190)	(10,654,657)
From due to the Central Bank and other banks	(872,573)	(651,346)
From issuing bank debentures	(814,173)	(829,742)
Others	<u>(225,139)</u>	<u>(247,340)</u>
	<u>(11,111,075)</u>	<u>(12,383,085)</u>
	<u>\$ 18,419,007</u>	<u>\$ 17,253,103</u>

29. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2016	2015
Service fee income		
From credit cards	\$ 5,252,193	\$ 4,435,757
From insurance	5,134,541	4,002,583
From trust business	2,806,871	3,121,624
From loans	1,471,176	1,626,514
From cross-selling	5,907	6,001
Others	<u>1,996,361</u>	<u>1,526,893</u>
	<u>16,667,049</u>	<u>14,719,372</u>
Service charge		
From agency	(690,523)	(632,732)
From computer processing	(320,575)	(300,492)
From cross-bank transactions	(317,282)	(290,201)
Others	<u>(399,368)</u>	<u>(305,763)</u>
	<u>(1,727,748)</u>	<u>(1,529,188)</u>
	<u>\$ 14,939,301</u>	<u>\$ 13,190,184</u>

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

	For the Year Ended December 31, 2016				
	Dividend Income	Interest Revenue (Expense)	Gain (Loss) on Disposal	Gain (Loss) on Valuation	Total
Held-for-trading financial assets	\$ 9,341	\$ 1,530,632	\$14,613,749	\$ (4,920,548)	\$11,233,174
Financial assets designated as at fair value through profit or loss	-	3,364,736	37,627	170,115	3,572,478
Held-for-trading financial liabilities	-	-	(12,381,874)	3,102,162	(9,279,712)
Financial liabilities designated as at fair value through profit or loss	<u>-</u>	<u>(1,619,437)</u>	<u>(1,857)</u>	<u>1,555,038</u>	<u>(66,256)</u>
	<u>\$ 9,341</u>	<u>\$ 3,275,931</u>	<u>\$ 2,267,645</u>	<u>\$ (93,233)</u>	<u>\$ 5,459,684</u>
	For the Year Ended December 31, 2015				
	Dividend Income	Interest Revenue (Expense)	Gain (Loss) on Disposal	Gain (Loss) on Valuation	Total
Held-for-trading financial assets	\$ 14,287	\$ 1,895,453	\$ 4,403,560	\$ 1,490,599	\$ 7,803,899
Financial assets designated as at fair value through profit or loss	-	2,225,387	29,568	(119,181)	2,135,774
Held-for-trading financial liabilities	-	-	(2,139,718)	(336,801)	(2,476,519)
Financial liabilities designated as at fair value through profit or loss	<u>-</u>	<u>(636,447)</u>	<u>-</u>	<u>196,679</u>	<u>(439,768)</u>
	<u>\$ 14,287</u>	<u>\$ 3,484,393</u>	<u>\$ 2,293,410</u>	<u>\$ 1,231,296</u>	<u>\$ 7,023,386</u>

31. EMPLOYEE BENEFIT, DEPRECIATION AND AMORTIZATION EXPENSE

	For the Year Ended December 31	
	2016	2015
Employee benefit		
Salaries	\$ 8,084,592	\$ 7,182,973
Insurance	533,788	491,944
Excessive interest from preferential rates	165,084	156,741
Post-employment benefits	300,617	262,068
Others	534,173	405,349
Depreciation expenses	1,006,524	883,099
Amortization expenses	445,750	309,572

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Bank approved by the stockholders in their meeting on January 8, 2016, the Bank accrued employees' compensation and remuneration of directors at the rates 3% and no higher than 0.6%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors (after offsetting accumulated deficit). The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Bank's board of directors on March 1, 2017 and March 18, 2016, respectively, were as follows:

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

If there is a change in the amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded in the next fiscal year as a change in the accounting estimate.

The bonus to employees and the remuneration of directors for 2014, which were approved in the stockholders' meetings on April 24, 2015, were as follows:

	2014
Bonus to employees - cash	\$ 357,151
Remuneration of directors - cash	67,000

The bonus to employees and remuneration of directors for 2014, which were approved in the stockholders' meetings on April 24, 2015, and the amounts recognized in the consolidated financial statements were as follows:

	For the Year Ended December 31, 2014	
	Bonus to Employees	Remuneration of Directors
Amounts approved in the stockholders' meeting	\$ 357,151	\$ 67,000
Amounts recognized in the consolidated financial statements	357,525	71,500

The differences between the approved amounts of employees' compensation/bonus to employees and remuneration of directors for 2015 and 2014 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2015 and 2014, respectively, were resulted from a change in the accounting estimate. The differences were recognized in profit or loss for 2016 and 2015, respectively.

Information on the approved amounts of employees' compensation/bonus to employees and remuneration of directors is available at the website of the Taiwan Stock Exchange (<http://emops.tse.com.tw>).

32. INCOME TAX

a. Income tax recognized in profit or loss

Main components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
Current year	\$ 2,185,776	\$ 1,943,535
Additional 10% income tax on unappropriated earnings	19,928	-
Prior year's adjustments	<u>6,845</u>	<u>(6,918)</u>
	<u>2,212,549</u>	<u>1,936,617</u>
Deferred tax		
Current year	(41,177)	11,137
Prior year's adjustments	<u>(7)</u>	<u>(373)</u>
	<u>(41,184)</u>	<u>10,764</u>
Income tax expense recognized in profit or loss	<u>\$ 2,171,365</u>	<u>\$ 1,947,381</u>

A reconciliation of accounting profit and current income tax expenses was as follows:

	For the Year Ended December 31	
	2016	2015
Income before tax from continuing operations	<u>\$ 15,431,475</u>	<u>\$ 14,677,275</u>
Income tax expense at the 17% statutory rate	\$ 2,623,351	\$ 2,495,136
Nondeductible expenses in determining taxable income	81,939	60,876
Tax-exempt income	(847,511)	(828,940)
Additional income tax under the Alternative Minimum Tax Act	13,762	233,496
Additional 10% income tax on unappropriated earnings	19,928	-
Land revaluation increment tax	-	493
Unrecognized deductible temporary differences	179,786	(94,551)
Effect of different tax rate of overseas branches operating in other jurisdictions	93,272	88,257
Adjustments for prior year's income tax	<u>6,838</u>	<u>(7,386)</u>
Income tax expense recognized in profit or loss	<u>\$ 2,171,365</u>	<u>\$ 1,947,381</u>

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
<u>Deferred tax</u>		
Recognized in other comprehensive income:		
Items that will not be reclassified subsequently to profit or loss		
Remeasurement of defined benefit plans	\$ (574)	\$ (33)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on the translation of financial statements of foreign operations	(254,116)	103,557
Unrealized gains or losses on available-for-sale financial assets	<u>19,412</u>	<u>(6,329)</u>
	<u>(234,704)</u>	<u>97,228</u>
Total income tax expense (benefit) recognized in other comprehensive income	<u>\$ (235,278)</u>	<u>\$ 97,195</u>

c. Current tax assets and liabilities

	December 31	
	2016	2015
Current tax liabilities		
Consolidated tax return payables	\$ 1,117,741	\$ 878,783
Income tax payable	<u>117,733</u>	<u>135,031</u>
	<u>\$ 1,235,474</u>	<u>\$ 1,013,814</u>

d. Deferred tax assets and liabilities

Movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Others	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Financial instruments at fair value through profit or loss	\$ 114,830	\$ 14,081	\$ -	\$ -	\$ -	\$ 128,911
Allowance for possible losses	266,220	(241,245)	-	(10)	-	24,965
Available-for-sale financial assets	8,298	-	(8,298)	-	-	-
Other financial assets	2,862	(1,859)	-	-	-	1,003
Investment properties	36	21	-	-	-	57
Properties and equipment	3,676	168	-	-	-	3,844
Foreclosed collaterals	2,133	-	-	-	-	2,133
Other assets	107	-	-	-	-	107
Payable for annual leave	38,618	6,903	-	-	201	45,722
Other liabilities	20,070	6,215	-	-	-	26,285
Defined benefit plans	-	-	574	-	642	1,216
Exchange differences on foreign operations	-	-	30,587	-	-	30,587
Others	<u>526</u>	<u>1,653</u>	<u>-</u>	<u>(11)</u>	<u>382</u>	<u>2,550</u>
	457,376	(214,063)	22,863	(21)	1,225	267,380
Unused loss carryforward	<u>26,962</u>	<u>132,487</u>	<u>-</u>	<u>(3,123)</u>	<u>-</u>	<u>156,326</u>
	<u>\$ 484,338</u>	<u>\$ (81,576)</u>	<u>\$ 22,863</u>	<u>\$ (3,144)</u>	<u>\$ 1,225</u>	<u>\$ 423,706</u>

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Others	Closing Balance
<u>Deferred tax liabilities</u>						
Temporary differences						
Available-for-sale financial assets	\$ 8,837	\$ (18)	\$ 11,114	\$ (326)	\$ -	\$ 19,607
Properties and equipment	4,521	(443)	-	(84)	-	3,994
Financial instruments at fair value through profit or loss	355,047	(84,426)	-	-	-	270,621
Share of profit of subsidiaries, accounted for using the equity method	40,726	(40,726)	-	-	-	-
Intangible assets	517,400	3,381	-	-	-	520,781
Unrealized foreign exchange gains	19,759	(528)	-	-	-	19,231
Provision of land revaluation increment tax	90,510	-	-	-	-	90,510
Exchange differences on foreign operations	223,529	-	(223,529)	-	-	-
	<u>\$ 1,260,329</u>	<u>\$ (122,760)</u>	<u>\$ (212,415)</u>	<u>\$ (410)</u>	<u>\$ -</u>	<u>\$ 924,744</u>
						(Concluded)

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Difference	Others	Closing Balance
<u>Deferred tax assets</u>						
Temporary differences						
Financial instruments at fair value through profit or loss	\$ 53,742	\$ 61,088	\$ -	\$ -	\$ -	\$ 114,830
Allowance for possible losses	-	266,220	-	-	-	266,220
Available-for-sale financial assets	1,490	-	6,808	-	-	8,298
Other financial assets	3,383	(521)	-	-	-	2,862
Investment properties	66	(30)	-	-	-	36
Properties and equipment	3,410	266	-	-	-	3,676
Foreclosed collaterals	2,133	-	-	-	-	2,133
Other assets	107	-	-	-	-	107
Payable for annual leave	34,777	3,841	-	-	-	38,618
Other liabilities	14,009	6,061	-	-	-	20,070
Defined benefit plans	62	(95)	33	-	-	-
Others	341	167	-	18	-	526
	113,520	336,997	6,841	18	-	457,376
Unused loss carryforward	-	27,339	-	(377)	-	26,962
	<u>\$ 113,520</u>	<u>\$ 364,336</u>	<u>\$ 6,841</u>	<u>\$ (359)</u>	<u>\$ -</u>	<u>\$ 484,338</u>
<u>Deferred tax liabilities</u>						
Temporary differences						
Available-for-sale financial assets	\$ 8,095	\$ 220	\$ 479	\$ 43	\$ -	\$ 8,837
Properties and equipment	279	4,105	-	137	-	4,521
Financial instruments at fair value through profit or loss	-	355,047	-	-	-	355,047
Share of profit of subsidiaries, accounted for using the equity method	30,119	10,607	-	-	-	40,726
Intangible assets	512,550	4,850	-	-	-	517,400
Unrealized foreign exchange gains	19,018	739	-	2	-	19,759
Provision of land revaluation increment tax	91,495	(468)	-	-	(517)	90,510
Exchange differences on foreign operations	119,972	-	103,557	-	-	223,529
	<u>\$ 781,528</u>	<u>\$ 375,100</u>	<u>\$ 104,036</u>	<u>\$ 182</u>	<u>\$ (517)</u>	<u>\$ 1,260,329</u>

e. Unrecognized deferred tax assets

	<u>December 31</u>	
	2016	2015
Deductible temporary difference	<u>\$ 3,447,592</u>	<u>\$ 1,830,128</u>

f. Imputed tax credit is summarized as follows:

	December 31	
	2016	2015
Balance of the imputation credit account (ICA)	<u>\$ 68,042</u>	<u>\$ 34,205</u>

For the distribution of the 2015 earnings, the actual creditable ratio was 0.29%. For the distribution of the 2016 earnings, the Bank estimated the creditable ratio at 0.52% for both cash dividends and stock dividends.

The actual stockholders' imputation credits should be based on the balance of the ICA as of the dividend distribution date. As a result, the estimated 2016 creditable ratio may differ from the actual creditable ratio.

g. As of December 31, 2016 and 2015, the balance of unappropriated earnings generated before January 1, 1998 was zero.

h. The income tax returns through 2011 have been assessed by the tax authorities.

33. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share were as follows:

	Amount (Numerator)	Shares (Denominator in Thousands)	Earnings Per Share (Dollars)
<u>For the year ended December 31, 2016</u>			
Basic earnings per share			
Net income	<u>\$ 13,411,351</u>	<u>7,262,883</u>	<u>\$ 1.85</u>
<u>For the year ended December 31, 2015</u>			
Basic earnings per share			
Net income	<u>\$ 12,667,282</u>	<u>7,199,534</u>	<u>\$ 1.76</u>

The number of shares outstanding was retrospectively adjusted to reflect the effects of the stock dividends distributed in the year following earnings appropriation. The basic earnings per share after income tax were retrospectively adjusted as follows:

Unit: NT\$ Per Share

	For the Year Ended December 31, 2015	
	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 1.90</u>	<u>\$ 1.76</u>

34. EQUITY

a. Capital stock

Common stock

	December 31	
	2016	2015
Authorized number of shares (in thousands)	<u>7,262,883</u>	<u>6,684,000</u>
Authorized capital	<u>\$ 72,628,830</u>	<u>\$ 66,840,000</u>
Number of shares issued (in thousands)	<u>7,262,883</u>	<u>6,684,000</u>
Common stock issued	<u>\$ 72,628,830</u>	<u>\$ 66,840,000</u>

Common stock issued has a NT\$10 par value. Each share has one voting right and the right to receive dividends.

On March 25, 2016, the Bank merged with ESIB through a share swap of 44,183 thousand new issued shares. The issuance was approved by the Ministry of Economic Affairs (MOEA).

The stockholders resolved to use the 2015 unappropriated earnings of \$5,347,000 thousand as stock dividends consisting of 534,700 thousand shares and increase its authorized capital to \$72,628,830 thousand on April 27, 2016. The issuance was approved by MOEA.

The stockholders resolved to use the 2014 unappropriated earnings of \$4,080,000 thousand as stock dividends consisting of 408,000 thousand shares on April 24, 2015. The issuance was approved by MOEA.

On April 24, 2015, the board of directors of the Bank resolved to increase its capital by \$2,380,000 thousand through private placement, to issue 140,000 thousand shares at NT\$17 per share. ESFHC subscribed for all the new shares. The issuance was approved by MOEA.

b. Capital surplus

Under the Articles of Incorporation of ESFHC, the employees of ESFHC's subsidiaries could be included in the distribution of employees' compensation. Thus, the Bank (ESIB included) recognized the estimated distribution of ESFHC's shares to the Bank's employees under both salary expenses and capital surplus at \$344,676 thousand and \$335,720 thousand for the years ended December 31, 2016 and 2015, respectively. Material differences between the estimated amounts and the amounts approved by ESFHC's board of directors before the date the annual consolidated financial statements are authorized for issue are adjusted in the year which the amounts is recognized. If there is a change in the approved amounts after the annual consolidated financial statements were authorized for issue, the differences are recognized in the next fiscal year as a change in the accounting estimate. The distributions of employees' stock compensation of 2015 approved by the board of directors and share bonus of 2014 to the Bank's employees (ESIB included) approved by ESFHC's stockholders were \$337,064 thousand and \$276,937 thousand, respectively. The differences resulted from a change in the accounting estimate were adjusted in profit or loss for the years ended December 31, 2016 and 2015.

Under related regulations, capital surplus must be used to offset deficit except capital surplus arising from the issuance of shares (issuance in excess of par value, capital surplus from issuance of common stock for combination and treasury stock transactions) and donation may be used to distribute cash dividends or transfer to common stock. However, any capital surplus transferred to common stock should be within a certain percentage of paid-in capital prescribed by law.

Under related regulations, capital surplus arising from equity investments under the equity method should not be distributed for any purpose.

c. Special reserve

Under FSC guidelines, the Bank reclassified the trading loss reserve of \$83,866 thousand accrued until December 31, 2010 to special reserve. This special reserve must be used to offset deficit except if the Bank has no deficit and the special reserve exceeds 50% of the Bank's paid-in capital, half of the excess may be used to issue new shares. Furthermore, when the special reserve exceeds the Bank's paid-in capital, the Bank may, under the FSC's approval, reclassify the excess back to unappropriated earnings.

d. Appropriation of earnings

The Bank's Articles of Incorporation provide that the following should be appropriated from the annual net income less any accumulated deficit:

1) The Articles of Incorporation (before revision on January 8, 2016)

- a) 30% as legal reserve and special reserve (legal reserve and special reserve are appropriated in accordance with related regulations after revision on April 24, 2015);
- b) Special reserve, if needed; and
- c) From any remainder and reversal of special reserve:
 - i. No more than 1% as remuneration of directors;
 - ii. 5% as bonus to employees; and
 - iii. For the remainder and prior years' unappropriated earnings, the board of directors shall draw up the appropriation of earnings motion for the approval of stockholders.

2) The Articles of Incorporation (after revision on January 8, 2016)

- a) Legal reserve and special reserve in accordance with related regulations;
- b) Special reserve, if needed; and
- c) From any remainder, reversal of special reserve and prior years' unappropriated earnings, the board of directors shall draw up the appropriation of earnings motion for the approval of stockholders.

Under the Bank's dividend policy, the issuance of stock dividends takes precedence over the payment of cash dividends to strengthen the Bank's financial structure. This policy is also intended to improve the Bank's capital adequacy ratio and keep it at a level higher than the ratio set under relevant regulations. When dividends are declared, cash dividends must be at least 10% of total dividends declared, unless the resulting cash dividend per share falls below NT\$0.10. However, cash dividends should not be more than 15% of paid-in capital if legal reserve is less than the total paid-in capital.

In accordance with the amendments to the Company Act in May 2015, the recipients of appropriation of earnings are limited to stockholders and do not include employees. The Bank made consequential amendments to the Bank's Articles of Incorporation on January 8, 2016. For information about the accrual basis of the employees' compensation and remuneration of directors and the actual distributions, please refer to Note 31.

Under the Company Act, legal reserve should be appropriated until the reserve equals the Bank's paid-in capital. This reserve should only be used to offset deficit. When the reserve exceeds 25% of the Bank's paid-in capital, the excess may be used to issue new shares or distribute cash dividends. In addition, the Banking Law limits the appropriation of cash dividends to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be waived.

Under related regulations, a special reserve is appropriated from the balance of the retained earnings at an amount from the net income and unappropriated earnings that is equal to the debit balance of accounts in the stockholders' equity section (such as exchange differences on the translation of financial statements of foreign operations and unrealized gains or losses on available-for-sale financial assets). The special reserve should be appropriated from the prior years' unappropriated earnings to the extent of the debit balance accumulated from prior years and such special reserve should not be appropriated. Afterward, if there is any reversal of the decrease in other stockholders' equity, the Bank is allowed to appropriating retained earnings from the reversal amount.

According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Bank is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

The imputation credits for stockholders are calculated on the creditable ratio on the date of dividend distribution.

The appropriation of earnings for 2015 and 2014 approved in the stockholders' meetings on April 27, 2016 and April 24, 2015, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2015	2014	2015	2014
Legal reserve	\$ 3,517,203	\$ 3,061,296		
Cash dividends	2,854,268	3,135,936	\$0.424	\$0.511
Stock dividends	5,347,000	4,080,000	0.795	0.665

The appropriation of earnings for 2016 had been proposed by the Bank's board of directors on March 1, 2017. The appropriation and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 3,916,851	
Special reserve	65,281	
Cash dividends	4,619,000	\$ 0.636
Stock dividends	4,452,170	0.613

The appropriation of earnings for 2016 are subject to the resolution of the stockholders' meeting. Information on earnings appropriation or deficit offsetting is available at the website of the Taiwan Stock Exchange (<http://emops.tse.com.tw>).

e. Non-controlling interests

	For the Year Ended December 31	
	2016	2015
Balance, January 1	\$ 733,792	\$ 784,953
Addition on acquisition of BankPro	104,206	-
Cash dividends distributed by subsidiary	(8,125)	-
Attributable to non-controlling interests		
Net income	(151,241)	62,612
Unrealized gains (losses) on available-for-sale financial assets	(18)	260
Exchange differences on the translation of financial statements of foreign operations	(13,900)	32,414
Remeasurement of defined benefit plans	(1,075)	-
Acquisition of non-controlling interests in subsidiary (Note 44)	-	(146,447)
Balance, December 31	<u>\$ 663,639</u>	<u>\$ 733,792</u>

35. RELATED-PARTY TRANSACTIONS

E.SUN Financial Holding Company, Ltd. (ESFHC) is the parent company of the Bank and the ultimate controller of the E.SUN Group. All transactions, balances, income and expenses between the Bank and the subsidiaries (related parties of the Bank) are eliminated on a consolidated basis. In addition to those mentioned in Table 2 and in other notes, the significant related-party transactions are summarized as follows:

a. Related parties

Related Party	Relationship with the Company
E.SUN Financial Holding Company, Ltd. (ESFHC)	Parent company
E.SUN Securities Co., Ltd., E.SUN Venture Capital Co., Ltd. and E.SUN Securities Investment Consulting Corp.	Sister companies
E.SUN Foundation and E.SUN Volunteer & Social Welfare Foundation	One third of the funds are donated by the Bank
Others	Key management of the parent company (ESFHC) and the Bank and other related parties

b. Significant transactions with related parties

1) Loans

	Highest Balance (Note)	Ending Balance	Interest Revenue	Interest Rate (%)
For the year ended <u>December 31, 2016</u>				
Sister companies	\$ 281,400	\$ -	\$ 14	
Key management	195,468	153,207	2,524	
Others	<u>1,855,180</u>	<u>1,714,313</u>	<u>23,326</u>	
	<u>2,332,048</u>	<u>1,867,520</u>	<u>25,864</u>	1.290-2.235
For the year ended <u>December 31, 2015</u>				
Sister companies	\$ 367,600	\$ -	\$ 16	
Key management	231,036	197,219	2,677	
Others	<u>1,735,060</u>	<u>1,565,983</u>	<u>22,771</u>	
	<u>\$ 2,333,696</u>	<u>\$ 1,763,202</u>	<u>\$ 25,464</u>	1.280-2.430

2) Deposits

	Highest Balance (Note)	Ending Balance	Interest Expense	Interest Rate (%)
For the year ended <u>December 31, 2016</u>				
Parent company	\$ 4,709,130	\$ 1,378,818	\$ 1,113	
Sister companies	2,399,596	2,023,318	9,634	
Key management	601,643	410,681	1,982	
Others	<u>1,492,232</u>	<u>937,331</u>	<u>13,009</u>	
	<u>9,202,601</u>	<u>4,750,148</u>	<u>\$ 25,738</u>	0.000-6.760
For the year ended <u>December 31, 2015</u>				
Parent company	\$ 6,061,714	\$ 1,004,970	\$ 8,348	
Sister companies	2,589,984	2,192,908	13,592	
Key management	481,514	246,571	1,748	
Others	<u>1,699,254</u>	<u>907,560</u>	<u>13,644</u>	
	<u>\$ 10,832,466</u>	<u>\$ 4,352,009</u>	<u>\$ 37,332</u>	0.000-6.760

Note: The sum of the respective highest balances of each account for the years ended December 31, 2016 and 2015.

	December 31	
	2016	2015
3) Interest receivable (part of receivables)		
Key management	\$ 82	\$ -
Others	<u>1,035</u>	<u>-</u>
	<u>\$ 1,117</u>	<u>\$ -</u>
4) Refundable deposit (part of other assets)		
Sister companies	<u>\$ 1,086</u>	<u>\$ 1,086</u>
5) Prepaid expense (part of other assets)		
Sister companies	<u>\$ 2,423</u>	<u>\$ 2,423</u>
6) Remuneration of directors (part of payables)		
Parent company	<u>\$ 80,000</u>	<u>\$ 80,000</u>
7) Interest payable (part of payables)		
Parent company	\$ 10	\$ -
Sister companies	613	487
Key management	221	185
Others	<u>1,031</u>	<u>916</u>
	<u>\$ 1,875</u>	<u>\$ 1,588</u>
8) Consolidated tax return payables (part of current tax liabilities)		
Parent company	<u>\$ 1,117,741</u>	<u>\$ 878,783</u>
9) Guarantee deposits received (part of other financial liabilities)		
Parent company	\$ 1,472	\$ 1,472
Sister companies	<u>2,386</u>	<u>2,449</u>
	<u>\$ 3,858</u>	<u>\$ 3,921</u>
10) Unearned revenue (part of other liabilities)		
Parent company	\$ 505	\$ 505
Sister companies	<u>720</u>	<u>1,068</u>
	<u>\$ 1,225</u>	<u>\$ 1,573</u>

The Bank's parent company, ESFHC, has filed consolidated corporate tax returns, i.e., including the Bank's income tax return, from 2003, as allowed by certain tax regulations.

		For the Year Ended December 31	
		2016	2015
11) Service fee income (part of service fee income, net)			
Parent company		\$ <u>23</u>	\$ <u>-</u>
12) Rental revenue (part of other noninterest gains, net)			
Parent company		\$ 6,203	\$ 6,154
Sister companies		<u>9,599</u>	<u>15,136</u>
		\$ <u>15,802</u>	\$ <u>21,290</u>
13) Rental income from operating assets (part of other noninterest gains, net)			
Parent company		\$ 93	\$ 99
Sister companies		<u>3,641</u>	<u>3,843</u>
		\$ <u>3,734</u>	\$ <u>3,942</u>
14) Donation (part of general and administrative expenses)			
E.SUN Volunteer & Social Welfare Foundation		\$ <u>50,362</u>	\$ <u>47,149</u>
15) Other (part of general and administrative expenses)			
Parent company		\$ 71,000	\$ 75,500
Sister companies		14,539	14,539
Others		<u>-</u>	<u>1,825</u>
		\$ <u>85,539</u>	\$ <u>91,864</u>

The above donation is for E.SUN Volunteer & Social Welfare Foundation's social welfare charity.

16) Directors as credit guarantors

	Amount	Interest Rate (%)	Rate of Guarantee Service Fee (%)
December 31, 2016	<u>\$ 11,000</u>	1.38	-
December 31, 2015	<u>\$ 60,000</u>	1.73	-

- 17) In August 2012, E.SUN Volunteer & Social Welfare Foundation entrusted some properties to the Bank. The Bank charged \$209 thousand and \$64 thousand (part of service fee income, net) accordingly for the years ended December 31, 2016 and 2015, respectively.

The Bank has operating lease contracts with related parties, which cover certain office spaces within the Bank's building. The monthly or quarterly rentals, which had been prepaid by the lessees, were based on rentals for buildings near the Bank.

The interest rates shown above are similar to, or approximate, those offered to third parties. However, the interest rates for saving deposits given to managers of the Bank are the same as the interest rates of employees' savings deposits within a certain amount.

Under the Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party should be 100% secured, and the terms of credits extended to related parties should be similar to those for third parties.

c. Compensation of key management

The compensation of the directors and other key management for the years ended December 31, 2016 and 2015 are summarized as follows:

	For the Year Ended December 31	
	2016	2015
Salaries and other short-term employment benefits	\$ 196,868	\$ 190,912
Post-employment benefits	1,448	1,425
Interest arising from the employees' preferential rates in excess of normal rates	<u>506</u>	<u>528</u>
	<u>\$ 198,822</u>	<u>\$ 192,865</u>

36. PLEDGED ASSETS

a. In addition to those mentioned in other notes, pledged assets were as follows:

	December 31	
	2016	2015
Financial assets at fair value through profit or loss (face value)	\$ 25,000,000	\$ 23,890,900
Available-for-sale financial assets (face value)	2,763,840	1,819,602
Held-to-maturity financial assets (face value)	1,537,567	2,391,670
Receivables (face value)	<u>3,200</u>	<u>-</u>
	<u>\$ 29,304,607</u>	<u>\$ 28,102,172</u>

As of December 31, 2016 and 2015, the foregoing bonds and securities, with aggregate face value of \$20,000,000 thousand and \$18,200,000 thousand, respectively, had been provided as collaterals for day-term overdraft to comply with the clearing system requirement of the Central Bank (CB) of the Republic of China for real-time gross settlement (RTGS). The unused overdraft amount at day's end can also be treated as the Bank's liquidity reserve. For covering its call loans from the CB, the Bank had provided collaterals consisting of securities with aggregate face values of \$5,000,000 thousand as of December 31, 2016 and 2015. It had also provided other securities as collaterals for operating reserve and for meeting the requirements for judiciary provisional seizure.

- b. To expand its capital sourcing and enhance its liquidity position, the Bank's Los Angeles Branch obtained access privileges at the Discount Window of the Federal Reserve Bank of San Francisco. For this access, the Branch pledged the following assets:

(In Thousands of U.S. Dollars)

Date	Outstanding Loan Balance	Collateral Value
December 31, 2016	<u>\$ 33,000</u>	<u>\$ 24,756</u>
December 31, 2015	<u>\$ 15,000</u>	<u>\$ 7,571</u>

37. CONTINGENCIES AND COMMITMENTS

In addition to those mentioned in other notes, the contingencies and commitments were as follows:

a. E.SUN Bank

- 1) Lease agreements on premises occupied by the Bank's branches are operating lease. Rentals are calculated on the basis of the leased areas and are payable monthly, quarterly or semiannually. As of December 31, 2016, refundable deposits on these leases totaled \$1,060,367 thousand (part of refundable deposits). Minimum future annual rentals were as follows:

	December 31	
	2016	2015
Within one year	\$ 837,260	\$ 772,179
Over one to five years	1,993,659	1,666,340
Over five years	<u>758,108</u>	<u>739,582</u>
	<u>\$ 3,589,027</u>	<u>\$ 3,178,101</u>

The lease payments recognized as expenses were as follows:

	For the Year Ended December 31	
	2016	2015
Minimum lease payments	\$ 679,341	\$ 621,081
Contingent rentals	<u>1,243</u>	<u>3,660</u>
	<u>\$ 680,584</u>	<u>\$ 624,741</u>

- 2) Lease agreements on investment properties owned by the Bank and rent to others are operating lease. Rentals are calculated on the basis of the leased areas and are receivable monthly, quarterly or semiannually. The lessees have no preemptive rights to buy properties at the end of the lease agreements. As of December 31, 2016, refundable deposits on these leases totaled \$4,736 thousand (part of guarantee deposits received). Minimum future annual rentals were as follows:

	December 31	
	2016	2015
Within one year	\$ 19,051	\$ 16,696
Over one to five years	<u>41,969</u>	<u>34,359</u>
	<u>\$ 61,020</u>	<u>\$ 51,055</u>

- 3) Agreements on the acquisition and decoration of buildings and various purchases related to the improvements of existing premises occupied by the Bank's branches amounted to approximately \$1,053,841 thousand. As of December 31, 2016, the remaining unpaid amount was approximately \$608,060 thousand.

b. Union Commercial Bank (UCB)

- 1) Lease agreements on premises occupied by UCB are operating lease. As of December 31, 2016, refundable deposits on these leases totaled \$12,050 thousand. Minimum future annual rentals were as follows:

	December 31	
	2016	2015
Within one year	\$ 16,835	\$ 19,554
Over one to five years	60,065	34,765
Over five years	<u>20,950</u>	<u>57,052</u>
	<u>\$ 97,850</u>	<u>\$ 111,371</u>

- 2) Decoration of buildings and various purchases related to the improvements of existing premises occupied by UCB amounted to approximately \$775,159 thousand. As of December 31, 2016, the remaining unpaid amount was approximately \$470,202 thousand.

- c. Lease agreements on premises occupied by ESBC are operating lease. As of December 31, 2016, refundable deposits on these leases totaled \$40,465 thousand. Minimum future annual rentals were as follows:

	December 31, 2016
Within one year	\$ 163,030
Over one to five years	390,168
Over five years	<u>237,564</u>
	<u>\$ 790,762</u>

- d. Lease agreements on premises occupied by BankPro are operating lease. As of December 31, 2016, refundable deposits on these leases totaled \$2,835 thousand. Minimum future annual rentals were as follows:

	December 31, 2016
Within one year	\$ 9,307
Over one to five years	<u>3,102</u>
	<u>\$ 12,409</u>

38. THE BANK'S AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average balance was calculated at the daily average balances of interest-earning assets and interest-bearing liabilities.

	For the Year Ended December 31			
	2016		2015	
	Average Balance	Average Rate (%)	Average Balance	Average Rate (%)
<u>Interest-earning assets</u>				
Cash and cash equivalents and other				
financial assets - due from banks	\$ 39,844,265	2.36	\$ 59,511,220	2.93
Call loans to banks	10,171,982	0.74	6,681,721	0.35
Due from the Central Bank	59,411,896	0.22	33,864,826	0.50
Held-for-trading financial assets - bonds	1,674,082	3.35	2,767,626	2.95
Held-for-trading financial assets - bills	273,102,409	0.54	231,375,304	0.78
Financial assets designated as at fair value				
through profit or loss - bonds	99,493,783	3.37	76,839,968	2.90
Securities purchased under resell				
agreements	602,251	1.85	702,384	1.57
Accounts receivable factored without				
recourse	11,123,273	1.92	21,089,250	2.85
Discounts and loans	1,039,083,500	2.13	977,956,492	2.26
Receivables on credit cards	23,474,219	7.38	21,139,260	8.74
Available-for-sale financial assets - bonds	127,152,821	1.93	102,689,087	1.85
Held-to-maturity financial assets	4,599,937	1.67	5,453,967	1.81
Debt instruments with no active market	1,262,056	4.16	1,138,592	3.52
<u>Interest-bearing liabilities</u>				
Due to the Central Bank and other banks	73,068,765	1.15	66,011,026	1.04
Financial liabilities at fair value through				
profit or loss	33,856,974	4.80	13,829,905	4.55
Securities sold under repurchase				
agreements	6,834,695	1.38	8,602,101	1.35
Demand deposits	411,269,563	0.16	335,900,445	0.23
Savings - demand deposits	448,990,458	0.24	392,693,786	0.35
Time deposits	333,509,091	1.17	339,279,053	1.35
Savings - time deposits	267,524,611	1.17	263,520,312	1.34
Negotiable certificates of deposits	1,824,761	0.46	1,277,789	0.53
Bank debentures	44,001,909	1.85	43,825,302	1.89
Principal of structured products	3,279,728	0.88	955,072	2.98

39. FINANCIAL INSTRUMENTS

- a. Fair values of financial instruments that are not measured at fair value

Except as detailed in the following table, the management considered the carrying amounts of financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or that the fair values cannot be reasonably measured.

	December 31			
	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 3,616,960	\$ 3,616,072	\$ 5,289,839	\$ 5,324,005
Debt instruments with no active market	1,291,160	1,295,901	987,000	1,014,969

Financial liabilities

Bank debentures	42,250,000	43,144,233	44,950,000	45,355,540
-----------------	------------	------------	------------	------------

Fair value hierarchy as of December 31, 2016

	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 3,616,072	\$ 3,263,778	\$ 352,294	\$ -
Debt instruments with no active market	1,295,901	-	1,295,901	-

Financial liabilities

Bank debentures	43,144,233	-	43,144,233	-
-----------------	------------	---	------------	---

Fair value hierarchy as of December 31, 2015

	Total	Level 1	Level 2	Level 3
<u>Financial assets</u>				
Held-to-maturity financial assets	\$ 5,324,005	\$ 4,981,384	\$ 342,621	\$ -
Debt instruments with no active market	1,014,969	-	1,014,969	-

Financial liabilities

Bank debentures	45,355,540	-	45,355,540	-
-----------------	------------	---	------------	---

The fair values of the financial assets and financial liabilities included in the Level 2 categories above have been determined in accordance with income approaches based on a discounted cash flow analysis.

- b. The valuation techniques and assumptions the Company uses for determining fair values are as follows:

The fair values of financial assets and financial liabilities traded on active markets are determined with reference to quoted market prices. When market prices are not available, valuation techniques are applied. The financial data obtained by the Company for making estimations and assumptions for financial instrument valuation is consistent with those used by other market participants to price financial instruments.

The Company estimated the fair value of each forward contract on the basis of the exchange rates quoted by Reuters on each settlement date. Fair values of interest rate swap contracts and cross-currency swap contracts are calculated using the discounted cash flow method, unless the fair values of these two types of contracts are provided by counterparties. Fair values of currency option contracts are based on estimates made using the Black Scholes model, binomial method or Monte Carlo simulation. The fair values of futures contracts are calculated using the prices quoted by the futures exchange.

For valuation of debt instruments with no active market, the fair value is determined on the basis of the discounted cash flow method. The Company uses a discount rate approximating the rate of return of financial instruments with similar terms and characteristics, including the credit risk of the debtors, the residual period during which the fixed interest rate prescribed by contracts is accrued, the residual period for principal repayments, and the type of currency (New Taiwan dollar, U.S. dollar, etc.) to be used for payments. As of December 31, 2016 and 2015, the discount rates used ranged from 0.174% to 1.870% and from 0.233% to 1.960%, respectively, for the New Taiwan dollar and from 0.670% to 2.602% and from 0.410% to 2.633%, respectively, for the U.S. dollar.

If there are trade prices or prices quoted by major market players, the latest trade prices and quoted prices are used as the basis for evaluating the fair value of debt instruments with no active market, which are classified as other financial assets; otherwise, the Company uses the foregoing valuation techniques to determine fair value.

- c. The fair value hierarchies of the Company's financial instruments, which were measured at fair value on a recurring basis, as of December 31, 2016 and 2015 were as follows:

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Nonderivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Held-for-trading financial assets				
Stocks	\$ 331,154	\$ 331,154	\$ -	\$ -
Others	253,172,081	-	253,172,081	-
Financial assets designated as at fair value through profit or loss	103,473,764	11,137,503	92,336,261	-
Available-for-sale financial assets				
Stocks	4,500,377	4,500,377	-	-
Debt instruments	134,748,590	95,437,414	39,311,176	-
Others	1,850,316	-	1,850,316	-

(Continued)

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	\$ 33,425,677	\$ -	\$ 33,425,677	\$ -

Derivative financial instruments

Assets

Financial assets at fair value through profit or loss	9,100,138	57,132	9,043,006	-
---	-----------	--------	-----------	---

Liabilities

Financial liabilities at fair value through profit or loss	8,666,026	-	8,666,026	-
				(Concluded)

	December 31, 2015			
	Total	Level 1	Level 2	Level 3

Nonderivative financial instruments

Assets

Financial assets at fair value through profit or loss				
Held-for-trading financial assets				
Stocks	\$ 87,716	\$ 87,716	\$ -	\$ -
Debt instruments	2,668,771	2,668,771	-	-
Others	244,568,920	-	244,568,920	-
Financial assets designated as at fair value through profit or loss	84,192,890	8,436,610	75,756,280	-
Available-for-sale financial assets				
Stocks	3,621,445	3,621,445	-	-
Debt instruments	126,154,884	113,575,717	12,563,129	16,038

Liabilities

Financial liabilities at fair value through profit or loss	20,111,409	-	20,111,409	-
--	------------	---	------------	---

Derivative financial instruments

Assets

Financial assets at fair value through profit or loss	17,030,813	78,906	16,951,907	-
---	------------	--------	------------	---

Liabilities

Financial liabilities at fair value through profit or loss	15,724,827	-	15,724,827	-
--	------------	---	------------	---

- d. Other information on financial assets and liabilities in Level 3 for the years ended December 31, 2016 and 2015 was as follows:

For the year ended December 31, 2016

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Issuance	Transfer to Level 3	Sale or Disposal	Transfer from Level 3	
<u>Assets</u>								
Available-for-sale financial assets	\$ 16,038	\$ -	\$ -	\$ -	\$ -	\$ 16,038	\$ -	\$ -

For the year ended December 31, 2015

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Issuance	Transfer to Level 3	Sale or Disposal	Transfer from Level 3	
<u>Assets</u>								
Available-for-sale financial assets	\$ 31,239	\$ -	\$ (15,201)	\$ -	\$ -	\$ -	\$ -	\$ 16,038

- e. Information on financial liabilities designated as at fair value through profit or loss was as follows:

	<u>December 31</u>	
	<u>2016</u>	<u>2015</u>
Difference between carrying amounts and the amounts due on maturity		
Fair value	\$ 33,425,677	\$ 20,111,409
Amounts due on maturity	<u>34,931,749</u>	<u>20,110,080</u>
	<u>\$ (1,506,072)</u>	<u>\$ 1,329</u>
		Change in Fair Values Resulting from Credit Risk Variations
Change in amount in the period		
For the year ended December 31, 2016		<u>\$ 46,523</u>
For the year ended December 31, 2015		<u>\$ 85,103</u>
Accumulated amount of change		
As of December 31, 2016		<u>\$ (44,882)</u>
As of December 31, 2015		<u>\$ 144,933</u>

The change in fair value of bank debentures and structured products resulting from credit risk variation is the difference between the total change in fair value and the change in fair value due to market risk variations of the bank debentures and structured products. The change in fair value resulting from market risk variations is calculated using the benchmark yield rate plus a fixed credit spread. The fair values of bank debentures and structured products are the present values of future cash flows discounted by the benchmark yield rate quoted in the market as of the balance sheet date plus the credit spread estimated using the interest rates of the debt issuers' borrowings with similar maturities.

f. Information on financial risk management

1) Risk management

The Bank established the risk management division to draw up the principles and policies of risk management to be followed by each department, to coordinate and monitor the enforcement of risk management policies of each department, and to deliberate whether proposals brought up by each risk-based unit to deal with a variety of issues are suitable for the Bank.

2) Credit risk

Credit risk refers to the Company's exposure to financial losses due to inability of customers or counterparties to meet the contractual obligations on financial instruments. Credit risk exists in both on- and off-balance sheet items. The on-balance sheet exposure to credit risks is mainly in loans and the credit card business, due from other banks, call loans to other banks, investment in debt instrument and derivatives. The off-balance sheet exposure to credit risks is mainly in financial guarantees, acceptance, letter of credits and loan commitments.

To ensure its credit risks fall within the acceptable range, the Company has stipulated in the Guidelines for Credit Risk Management that for all the products provided and businesses conducted, including all on- and off-balance sheet transactions in the banking and trading books, the Company should make a detailed analysis to identify existing and potential credit risks. Before launching new products or businesses, the Company ensures compliance with all applicable rules and regulations and identifies relevant credit risks. For sophisticated credit extensions, such as accounts receivable factored without recourse and credit derivative instruments, etc., the Company also requires the use of a certain risk management system described in related rules and guidelines. The assessment of asset qualities and provision for possible losses of the overseas operating units, unless regulated by the local authorities, are in accordance with the Company's risk management policies and guidelines.

The measurement and management of credit risks from the Company's main businesses are as follows:

a) Loans and credit card business (including loan commitment and guarantees)

Credit assets are classified into five categories. In addition to normal credit assets that are classified as sound assets, the unsound assets are classified, on the basis of the valuation of collaterals and the length of time the payments become overdue, as special mention, substandard, with collectability high doubtful and uncollectable. The Company also set up policies for the management of doubtful credits and the collection of overdue debts to deal with collection problems.

For risk management purposes, the Company rates credit qualities (by using an internal rating model for credit risk, a credit score table, etc.) in accordance with the nature and scale of a business.

With the use of statistical method and judgment by experts, the Company has developed a credit rating model for clients. The Company reviews the model periodically to examine if the outcome matches reality and adjusts each parameter to optimize the result. Except the petit credit and residential mortgage, which are assessed by using the credit rating model, consumer loans are assessed individually for default risks.

The Company classifies the credit qualities of corporate loans as strong, medium and weak. The Company evaluates the credit rating of borrowers at least once a year. In addition, to ensure the estimates used are reasonable and to make sure the outcome calculated matches reality, the Company annually conducts validity test and back testing on the models using data on customers' actual defaults.

b) Due from and call loans to other banks

The Company evaluates the credit status of counterparties before deals are closed. The Company grants different limits to the counterparties based on their respective credit ratings as suggested by domestic and foreign credit rating institutes.

c) Investment in debt instruments and derivatives

The Company identifies and manages credit risks from debt instruments through the use of external credit ratings of the debt instruments along with the evaluation of credit qualities of bonds, regional conditions and counterparty risks.

The other banks with which the Company conducts derivative transactions are mostly considered investment grade. The Company monitors the credit limits (including lending limits) by counterparties. The credits extended to counterparties that are not rated as investment grade are assessed case by case. The credits extended to counterparties who are general customers are monitored in accordance with the related contract terms and conditions and the credit limits for derivatives established in normal credit granting processes.

The Company classifies the debt instruments and derivatives into different categories, which are mainly based on the credit ratings provided by external credit agencies (Moody's, S&P, Fitch or Taiwan Ratings).

The Company has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collaterals from the borrowers. To secure the debt, the Company manages and assesses the collaterals following the procedures that determine the scope of collateralization and valuation of collaterals and the process of disposition. In credit contracts, the Company stipulates the security mechanism for debts; the conditions and terms for collaterals; and the terms and conditions of offsetting to state clearly that the Company reserves the right to reduce the granted quota, to reduce the repayment period, to demand immediate settlement or to offset the debts of the borrowers by their deposits in the Company in order to reduce the credit risks. The requirements for collaterals for other non-credit businesses depend on the nature of the financial instruments. Asset-backed securities and similar financial instruments are required to provide a pool of underlying financial assets as collaterals.

To avoid the concentration of credit risks, the Company has included credit limits for a single counterparty and for a single group in its credit-related guidelines. The Company has also included credit limits for an individual (entity) and for related enterprises (group) in the guidelines for investment and regulations for risk control on equity investments. To manage the concentration risk on the assets, the Company set credit limits by industry, conglomerate, country, transactions collateralized by stocks, and other categories and integrated within one system the supervision of concentration of credit risk in these categories.

The Company settles most of its transactions at gross amounts. For further reduction of credit risks, settlement netting is used for some counterparties or some circumstances where the transactions with counterparties are terminated due to defaults.

The maximum exposures of assets on the consolidated balance sheets to credit risks without consideration of guarantees or other credit enforcement instruments approximate the assets' carrying amounts. The maximum exposures of off-balance sheet items to credit risks without consideration of guarantees or other credit enforcement instrument are stated as follows:

	December 31	
	2016	2015
Irrevocable loan commitments issued	\$ 108,392,752	\$ 95,251,392
Credit card commitments	334,179,541	319,845,197
Letters of credit issued yet unused	9,769,959	8,955,148
Other guarantees	16,258,818	15,280,656

The management of the Company believes its ability to minimize the credit risk exposures of the off-balance sheet items is mainly attributed to its rigorous evaluation of credit extended and the periodic reviews of these credits.

Concentration of credit risk exists when counterparties to financial transactions are individuals or groups engaged in similar activities or activities in the same region, which would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Group or industry, regions and collaterals that were 10% or more of total outstanding loans were as follows:

Credit Risk Profile by Group or Industry	December 31			
	2016		2015	
	Amount	%	Amount	%
Natural person	\$ 554,763,993	49	\$ 510,397,703	48
Manufacturing	229,067,836	20	231,022,272	22
Wholesale, retail and restaurants	113,556,830	10	100,071,132	9

Credit Risk Profile by Regions	December 31			
	2016		2015	
	Amount	%	Amount	%
Domestic	\$ 986,540,905	87	\$ 917,441,897	87

Credit Risk Profile by Collaterals	December 31			
	2016		2015	
	Amount	%	Amount	%
Unsecured	\$ 325,011,987	29	\$ 318,280,110	30
Secured				
Real estate	711,642,885	63	638,251,125	60

Some financial assets held by the Company, such as cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, securities purchased under resell agreements and refundable deposits, are exposed to low credit risks because the counterparties have rather high credit ratings.

In addition to the above assets, credit quality analyses on other financial assets were as follows:

a) Credit quality analysis on discounts, loans and receivables

December 31, 2016	Neither Past Due Nor Impaired (A)	Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit cards	\$ 52,386,852	\$ 1,513,193	\$ 1,835,029	\$ 55,735,074	\$ 568,648	\$ 674,668	\$ 54,491,758
Others	21,434,076	72,555	603,313	22,109,944	139,456	470,014	21,500,474
Discounts and loans	1,117,494,302	7,058,405	8,503,778	1,133,056,485	3,286,853	11,443,301	1,118,326,331

December 31, 2015	Neither Past Due Nor Impaired (A)	Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit cards	\$ 42,604,075	\$ 1,068,400	\$ 1,786,230	\$ 45,458,705	\$ 530,923	\$ 891,227	\$ 44,036,555
Others	27,714,360	110,633	71,881	27,896,874	23,262	386,756	27,486,856
Discounts and loans	1,022,354,704	7,947,288	4,649,330	1,034,951,322	2,795,079	10,056,941	1,022,099,302

b) Credit quality analysis on discounts and loans neither past due nor impaired (based on credit ratings of clients)

December 31, 2016	Neither Past Due Nor Impaired			
	Strong	Medium	Weak	Total
Consumer loans				
Residential mortgage	\$ 124,616,769	\$ 142,470,018	\$ 6,736,042	\$ 273,822,829
Petit credit	48,047,529	37,241,203	2,070,412	87,359,144
Others	85,180,608	97,384,027	4,726,489	187,291,124
Corporate loans				
Secured	120,192,251	139,442,726	10,413,459	270,048,436
Unsecured	206,002,064	84,375,246	8,595,459	298,972,769
Total	\$ 584,039,221	\$ 500,913,220	\$ 32,541,861	\$ 1,117,494,302

December 31, 2015	Neither Past Due Nor Impaired			
	Strong	Medium	Weak	Total
Consumer loans				
Residential mortgage	\$ 120,197,264	\$ 138,905,836	\$ 6,643,669	\$ 265,746,769
Petit credit	37,543,587	34,924,086	5,262,321	77,729,994
Others	73,177,111	84,567,048	4,202,711	161,946,870
Corporate loans				
Secured	109,495,053	115,126,783	6,424,750	231,046,586
Unsecured	188,247,277	89,526,386	8,110,822	285,884,485
Total	\$ 528,660,292	\$ 463,050,139	\$ 30,644,273	\$ 1,022,354,704

c) Credit quality analysis on securities

December 31, 2016	Neither Past Due Nor Impaired				Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Loss (D)	Net (A)+(B)+(C)-(D)
	Above A+	A - BBB-	Below BB+	Subtotal (A)					
Available-for-sale financial assets									
Bonds	\$ 84,824,597	\$ 49,417,642	\$ 506,351	\$ 134,748,590	\$ -	\$ -	\$ 134,748,590	\$ -	\$ 134,748,590
Equities	733,040	2,602,960	1,164,377	4,500,377	-	-	4,500,377	-	4,500,377
Others	1,850,316	-	-	1,850,316	-	-	1,850,316	-	1,850,316
Held-to-maturity financial assets									
Bonds	3,264,668	-	-	3,264,668	-	305,488	3,570,156	33,893	3,536,263
Others	-	80,697	-	80,697	-	-	80,697	-	80,697
Other financial assets									
Bonds	322,790	968,370	-	1,291,160	-	-	1,291,160	-	1,291,160
Equities	-	-	519,710	519,710	-	24,071	543,781	5,900	537,881

December 31, 2015	Neither Past Due Nor Impaired				Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Loss (D)	Net (A)+(B)+(C)-(D)
	Above A+	A - BBB-	Below BB+	Subtotal (A)					
Available-for-sale financial assets									
Bonds	\$ 87,092,745	\$ 38,256,572	\$ 805,567	\$ 126,154,884	\$ -	\$ -	\$ 126,154,884	\$ -	\$ 126,154,884
Equities	1,047,052	1,698,105	876,288	3,621,445	-	-	3,621,445	-	3,621,445
Held-to-maturity financial assets									
Bonds	4,782,719	164,500	-	4,947,219	-	311,365	5,258,584	34,545	5,224,039
Others	-	65,800	-	65,800	-	-	65,800	-	65,800
Other financial assets									
Bonds	329,000	658,000	-	987,000	-	-	987,000	-	987,000
Equities	-	-	524,302	524,302	-	35,006	559,308	16,835	542,473

The processing delays by the borrowers and other administrative reasons may cause financial assets to become past due but not impaired. As defined in the internal rules governing the Company's risk management, financial assets past due within 90 days are not deemed as impaired, unless there are other evidences that indicate impairment.

The vintage analysis of financial assets that are past due but not impaired was as follows:

Item	December 31, 2016		
	Past Due Up to 1 Month	Past Due by Over 1 Month - 3 Months	Total
Receivables			
Credit cards	\$ 1,244,532	\$ 268,661	\$ 1,513,193
Others	24,759	47,796	72,555
Discounts and loans			
Consumer loans			
Residential mortgage	1,356,390	421,189	1,777,579
Petit credit	1,538,085	338,928	1,877,013
Others	894,845	237,333	1,132,178
Corporate loans			
Secured			
The Bank	709,076	161,422	870,498
Subsidiaries	-	283,150	283,150
Unsecured			
The Bank	1,003,598	114,389	1,117,987
Subsidiaries	-	-	-

Item	December 31, 2015		
	Past Due Up to 1 Month	Past Due by Over 1 Month - 3 Months	Total
Receivables			
Credit cards	\$ 890,103	\$ 178,297	\$ 1,068,400
Others	30,053	80,580	110,633
Discounts and loans			
Consumer loans			
Residential mortgage	1,654,135	224,191	1,878,326
Petit credit	1,391,173	217,498	1,608,671
Others	1,025,484	159,222	1,184,706
Corporate loans			
Secured			
The Bank	796,457	57,676	854,133
Subsidiaries	276,532	1,269,504	1,546,036
Unsecured			
The Bank	716,637	18,317	734,954
Subsidiaries	66,163	74,299	140,462

3) Market risk

Market risk refers to the risk of fluctuation in the fair values or the future cash flows of the on- and off-balance sheet instruments held by the Company because of market price changes. The risk factors which cause market price changes usually include interest rates, exchange rates, and the prices of equity securities and commodities. Changes in these risk factors will cause risk of fluctuation in the net income or in the value of investment portfolio of the Company.

The main market risks the Company faces are the risks on equity securities, interest rates, and exchange rate risks. The equity securities exposed to market risks mainly include stocks listed on the Taiwan Stock Exchange or traded on the Taiwan GreTai Securities Market or Emerging Stock Market and stock index futures in Taiwan; the instruments exposed to interest rate risk mainly include bonds and interest rate derivatives such as the fixed-for-floating interest rate swap; and the instruments exposed to exchange rate risk mainly include the consolidated positions of the investment held by the Company, such as the derivatives denominated in foreign currency and foreign-currency bonds.

The Bank monitors the market risk positions and the tolerable loss of the Bank in accordance with the goals of risk management and the amount limits authorized by the board of directors.

The Bank has set up market risk information systems to effectively monitor the management of amount limits on financial instruments, to evaluate the profit and loss, to conduct sensitivity analysis, stress test and calculation of value at risk (VaR), etc. The result is reported in the meetings of risk management and to the board of directors as their reference for making managerial decisions.

The Company mainly divides the positions exposed to market risks into investment portfolios held for trading and investment portfolios not held for trading. The portfolios are monitored by the Risk Management Division, and the management results are reported regularly to the board of directors and the supervisors of each division.

The business units and the risk management units both identify market risk factors for the Company's exposed positions in order to measure market risks. Market risk factors refer to the factors that affect interest rates, exchange rates and values of held financial instruments such as equity securities, etc. The Company analyzes the impact of risk factors on its holding positions, profit and loss, negative result of stress test, sensitivity, VaR, etc., and measures the levels within which the investment portfolios and equity securities might suffer from interest rate risks, exchange rate risks, etc.

The risk management division reports regularly to the board of directors the achievement of management objectives on market risks, the control of holding positions and profit and loss, the sensitivity analysis, the stress test, the value at risk of equity securities, etc. for their understanding of the Bank's market risk control. The Bank also has sound mechanisms for reporting and set limits and stop-loss regulations for all the transactions. If a trade reaches the stop-loss limit, the stop-loss will be executed immediately. Trades that do not follow the stop-loss rule should be reported to the management for their approval, and the reasons for their noncompliance as well as corresponding strategies should also be presented to the management.

The Bank uses the VaR model and stress tests to evaluate risks on investment portfolios for trading. The Bank also assesses market risks and evaluates the maximum expected loss of positions through making assumptions on changes in various market conditions. The board of directors set amount limits based on VaR. The whole risk management process is monitored daily by the Risk Management Division.

VaR statistically estimates the potential loss of the positions due to adverse market movements. It is the "maximum potential loss" the Bank may suffer within a certain confidence interval (99%), so it is still probable that the actual loss is larger than the VaR to some extent. VaR model assumes that the Bank holds the positions at least for the minimum holding periods (10 days) before they can be settled, and that the market fluctuation in these 10 days is similar to that in the past.

The Bank evaluates historical market fluctuation based on historical data in the past two years. The Bank evaluates the VaR of its holding positions using the variance/covariance method. The computation will be used for periodic examinations and verification of assumptions and parameters used. However, this evaluation method cannot prevent losses from significant market fluctuations.

Information on the VaR of the Bank was as follows:

For the year ended December 31, 2016

Historical Values at Risk (99%, 10-day)	Average	Minimum	Maximum	December 31, 2016
<u>By risk type</u>				
Currency	\$ 2,604,185	\$ 1,677,783	\$ 4,182,141	\$ 2,656,274
Interest	2,096,177	1,510,370	4,143,083	2,381,397
Equity	253,788	184,081	287,871	255,435
Risk diversification	<u>(1,636,908)</u>	-	-	<u>(2,146,491)</u>
Total risk exposure	<u>\$ 3,317,242</u>			<u>\$ 3,146,615</u>

For the year ended December 31, 2015

Historical Values at Risk (99%, 10-day)	Average	Minimum	Maximum	December 31, 2015
<u>By risk type</u>				
Currency	\$ 1,624,826	\$ 942,046	\$ 2,629,495	\$ 1,957,360
Interest	1,425,463	773,306	2,105,512	2,105,512
Equity	159,724	126,659	187,988	186,131
Risk diversification	<u>(1,052,459)</u>	-	-	<u>(1,353,905)</u>
Total risk exposure	<u>\$ 2,157,554</u>			<u>\$ 2,895,098</u>

Stress test is used to measure the greatest potential losses of the portfolio of risk assets under the worst scenarios. It is performed by the Risk Management Division, and it includes (a) a stress test on risk factors, in which the stress test is applied to all kinds of risks; and (b) a temporary stress test, in which the stress test is applied to special investment positions or specific investment areas, for example, areas where exchange rates fluctuate dramatically. The results of stress tests are reported to the senior management.

For the information on the foreign-currency financial assets and liabilities with significant effect, please refer to Table 3.

4) Liquidity risk

Liquidity risk refers to the possibility of financial loss resulting from the shortage of funds in meeting the needs of asset acquisition or debt repayment on maturity. Examples are the depositors' withdrawal of deposits before maturity, difficulty in raising funds from other banks or worsening funding conditions due to the fluctuations in specific markets, unstable recovery of money due to credit defaults, deterioration of the convertibility of financial instruments, early termination of interest-sensitive instruments, etc. These situations might result in decrease of cash inflows from loans, trades and investments. In some extreme cases, lack of liquidity may cause decrease of asset values in balance sheets, disposal of assets or other situations in which loan commitments cannot be met. Liquidity risks exist in all banking operations, and are influenced by specific events from industries or markets, including but not limited to credit events, mergers and acquisitions, systematic risks in the industry or natural disasters.

Liquidity risk management is done by the Money Market Division and monitored by the Risk Management Division. The procedures include (a) maintaining daily money market operations and monitoring future cash flows to ensure the meeting of liquidity requirements; (b) holding an appropriate amount of readily convertible and highly liquid assets to prevent from unpredictable events that disrupt cash flows; (c) monitoring the liquidity ratios for the balance sheets in accordance with internal and external policies; and (d) managing security products during their remaining maturity periods. Liquidity risk monitoring and reporting are based on the valuation and prediction of future cash flows from different terms to maturity (maturity gap is used by the Bank as a tool to manage liquidity risk). The prediction of cash flows involves the cash outflows at the maturity date of the financial liabilities and the cash inflows at the receipt date of financial assets.

For maintaining solvency and meeting the needs of emergency assistance arrangements, the Company holds cash and high-quality, liquid interest-bearing assets. The assets held for liquidity risk management include cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets, and debt instruments with no active market, etc.

The liquidity reserve ratios of the Bank for December 2016 and 2015 were 24.99% and 27.71%, respectively.

The Company disclosed the analysis of cash outflows from nonderivative financial liabilities by the residual maturities as of the balance sheet date. The amounts of cash outflows are based on contractual cash flows, so some amounts may not correspond to those that shown in the consolidated balance sheets.

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	\$ 21,209,757	\$ 28,444,885	\$ 1,804,692	\$ 1,050,022	\$ 6,650	\$ 52,516,006
Nonderivative financial liabilities at fair value through profit or loss	-	22,835	-	369,522	34,539,392	34,931,749
Securities sold under repurchase agreements	6,838,396	1,411,493	662,374	-	-	8,912,263
Payables	22,489,698	327,790	121,072	266,479	90,663	23,295,702
Deposits and remittances	448,668,686	154,088,003	167,685,515	282,563,601	506,545,242	1,559,551,047
Bank debentures	-	-	3,000,000	2,500,000	36,750,000	42,250,000
Other items of cash outflow on maturity	5,874,586	183,608	-	-	3,596,359	9,654,553

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	\$ 39,721,702	\$ 28,852,214	\$ 2,014,940	\$ 581,274	\$ -	\$ 71,170,130
Nonderivative financial liabilities at fair value through profit or loss	-	-	-	-	20,110,080	20,110,080
Securities sold under repurchase agreements	5,069,764	811,348	2,160,531	27,835	-	8,069,478
Payables	16,714,013	290,496	306,291	428,117	66,195	17,805,112
Deposits and remittances	405,711,530	161,515,380	178,646,340	296,511,728	415,675,024	1,458,060,002
Bank debentures	-	-	300,000	2,400,000	42,250,000	44,950,000
Other items of cash outflow on maturity	206,492	-	61,459	1,267,084	328,340	1,863,375

The Company assessed the maturity date of contracts to understand the basic elements of all derivative financial instruments shown in the consolidated balance sheets. The amounts used in the maturity analyses of derivative financial liabilities are based on contractual cash flows, so some may not correspond to the amounts shown in the consolidated balance sheets. The maturity analysis of derivative financial liabilities was as follows:

a) Derivative financial liabilities to be settled at net amount

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency	\$ -	\$ -	\$ 4,224	\$ -	\$ -	\$ 4,224

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency	\$ 8,644	\$ 73,810	\$ 441,040	\$ 6,812	\$ -	\$ 530,306

b) Derivative financial liabilities to be settled at gross amounts

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency derivatives						
Cash outflow	\$ 107,637,548	\$ 89,441,644	\$ 74,484,014	\$ 62,761,398	\$ 2,710,220	\$ 337,034,824
Cash inflow	107,989,523	89,910,907	74,581,216	63,130,544	2,752,164	338,364,354
Interest derivatives						
Cash outflow	154,482	85,338	107,267	360,716	10,345,145	11,052,948
Cash inflow	330,974	12,073	236,418	207,568	10,170,448	10,957,481
Total cash outflow	107,792,030	89,526,982	74,591,281	63,122,114	13,055,365	348,087,772
Total cash inflow	108,320,497	89,922,980	74,817,634	63,338,112	12,922,612	349,321,835
Net cash outflow (inflow)	(528,467)	(395,998)	(226,353)	(215,998)	132,753	(1,234,063)

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss						
Currency derivatives						
Cash outflow	\$ 63,291,005	\$ 62,600,322	\$ 43,622,601	\$ 68,300,292	\$ 3,428,630	\$ 241,242,850
Cash inflow	63,274,996	62,075,974	44,077,033	69,307,419	3,509,585	242,245,007
Interest derivatives						
Cash outflow	2,447	42,393	78,157	13,761	19,626,859	19,763,617
Cash inflow	4,598	66,526	46,792	14,678	24,732,024	24,864,618
Total cash outflow	63,293,452	62,642,715	43,700,758	68,314,053	23,055,489	261,006,467
Total cash inflow	63,279,594	62,142,500	44,123,825	69,322,097	28,241,609	267,109,625
Net cash outflow (inflow)	13,858	500,215	(423,067)	(1,008,044)	(5,186,120)	(6,103,158)

The Company conducted the maturity analysis of off-balance sheet items based on the residual maturities as of the balance sheet date. For the financial guarantee contracts issued, the maximum amounts of the guarantees are included in the earliest periods that the guarantee obligation might have been required to be fulfilled. The amounts used in the maturity analysis of off-balance sheet items are based on contractual cash flows, so some amounts may not correspond to those shown in the consolidated balance sheets.

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 3,997,690	\$ 8,379,961	\$ 13,811,075	\$ 35,180,819	\$ 47,023,207	\$ 108,392,752
Credit card commitments	2,328,163	2,919,419	9,067,451	24,335,280	295,529,228	334,179,541
Letters of credit issued yet unused	3,191,780	4,435,885	932,091	393,550	816,653	9,769,959
Other guarantees	2,441,565	2,541,693	2,110,398	3,642,203	5,522,959	16,258,818

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 4,845,365	\$ 7,222,342	\$ 13,764,273	\$ 28,931,039	\$ 40,488,373	\$ 95,251,392
Credit card commitments	5,136,746	835,119	2,722,328	14,630,233	296,520,771	319,845,197
Letters of credit issued yet unused	2,457,254	4,298,412	1,368,176	231,663	599,643	8,955,148
Other guarantees	2,359,279	2,691,466	2,944,889	4,647,652	2,637,370	15,280,656

g. Transfers of financial assets

Most of the transferred financial assets of the Company that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Company's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Company is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that were not derecognized in their entirety and the associated financial liabilities were as follows:

December 31, 2016					
Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Associated Financial Liabilities	Fair Value of Net Position
Available-for-sale financial assets - securities sold under repurchase agreements	\$ 9,190,252	\$ 8,881,723	\$ 9,190,252	\$ 8,881,723	\$ 308,529

December 31, 2015					
Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Associated Financial Liabilities	Fair Value of Net Position
Available-for-sale financial assets - securities sold under repurchase agreements	\$ 7,970,663	\$ 7,740,106	\$ 7,970,663	\$ 7,740,106	\$ 230,557
Held-to-maturity financial assets - securities sold under repurchase agreements	253,680	294,285	256,623	294,285	(37,662)

h. Offsetting financial assets and financial liabilities

The Company is eligible to present certain derivative assets and derivative liabilities on a net basis on the balance sheet since the offsetting criteria are met. Cash collateral has also been paid by part of counterparties for the net amount of the derivative assets and derivative liabilities. The cash collateral does not meet the offsetting criteria, but it can be set off against the net amount of the derivative assets and derivative liabilities in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The tables below present the quantitative information on financial assets and financial liabilities that have been offset in the balance sheet or that are covered by enforceable master netting arrangements or similar agreements.

December 31, 2016

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amounts
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 9,100,138	\$ -	\$ 9,100,138	\$ (4,340,857)	\$ (2,032,973)	\$ 2,726,308
Resell agreements	174,017	-	174,017	(174,017)	-	-
	<u>\$ 9,274,155</u>	<u>\$ -</u>	<u>\$ 9,274,155</u>	<u>\$ (4,514,874)</u>	<u>\$ (2,032,973)</u>	<u>\$ 2,726,308</u>

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amounts
				Financial Instruments	Cash Collateral Pledged	
Derivatives	\$ 8,666,026	\$ -	\$ 8,666,026	\$ (4,340,857)	\$ (1,345,262)	\$ 2,979,907
Repurchase agreements	8,896,315	-	8,896,315	(8,896,315)	-	-
Settlements	17,059	-	17,059	-	-	17,059
	<u>\$ 17,579,400</u>	<u>\$ -</u>	<u>\$ 17,579,400</u>	<u>\$ (13,237,172)</u>	<u>\$ (1,345,262)</u>	<u>\$ 2,996,966</u>

December 31, 2015

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amounts
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 17,030,813	\$ -	\$ 17,030,813	\$ (3,709,231)	\$ (2,341,756)	\$ 10,979,826
Resell agreements	898,936	-	898,936	(898,936)	-	-
	<u>\$ 17,929,749</u>	<u>\$ -</u>	<u>\$ 17,929,749</u>	<u>\$ (4,608,167)</u>	<u>\$ (2,341,756)</u>	<u>\$ 10,979,826</u>

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheet		Net Amounts
				Financial Instruments	Cash Collateral Pledged	
Derivatives	\$ 15,724,827	\$ -	\$ 15,724,827	\$ (3,709,231)	\$ (3,930,234)	\$ 8,085,362
Repurchase agreements	8,049,909	-	8,049,909	(8,049,909)	-	-
Settlements	354,585	-	354,585	-	-	354,585
	<u>\$ 24,129,321</u>	<u>\$ -</u>	<u>\$ 24,129,321</u>	<u>\$ (11,759,140)</u>	<u>\$ (3,930,234)</u>	<u>\$ 8,439,947</u>

40. CAPITAL MANAGEMENT

The two main objectives of capital management of the Bank are (a) meeting the requirements for legal capital set by the authorities and building an effective system for capital management and (b) balancing risk control and business development under the premise of “undertaking risks and earning returns on capital” and maximizing the stockholders’ profits.

The Banking Law and related regulations require that the Bank maintains both standalone and consolidated ratios of regulatory capital to risk-weighted assets (including ratio of the common equity to risk-weighted assets, ratio of Tier 1 capital to risk-weighted assets and capital adequacy ratio (CAR)) should comply with the minimum ratio requested by authorities.

The capital of the Bank is jointly managed by the Capital Management Team and the Risk Management Division. The management process starts from the evaluation and adjustments to plans or budgets by using different quantitative methods that consider risks, returns and growth rates. Subsequently, the evaluation and adjustments are used to confirm the total amount of capital requirement and is eventually used to allocate the capital to the respective branches and operating units. The whole process takes into consideration the quantitative risk assessment, plans and budgets, capital balance and allocation of economic capitals to corresponding units on the basis of risk appetite. The process is a combination of risk appetite, capital management, risk management, managerial decisions and performance assessment.

Information on the Bank's CAR was as follows:

(Unit: In Thousands of New Taiwan Dollars, %)

Items			Year	December 31, 2016	
				Standalone	Consolidated
Eligible capital	Common equity		\$ 117,217,039	\$ 119,481,671	
	Other Tier 1 capital		14,031,679	17,294,464	
	Tier 2 capital		43,688,237	51,570,494	
	Eligible capital		174,936,955	188,346,629	
Risk-weighted assets	Credit risk	Standardized approach	1,183,636,579	1,232,534,478	
		Internal ratings-based approach	-	-	
		Securitization	-	-	
	Operational risk	Basic indicator approach	-	-	
		Standardized approach/alternative standardized approach	58,867,763	60,688,275	
		Advanced measurement approach	-	-	
	Market risk	Standardized approach	33,630,263	34,100,088	
		Internal model approach	-	-	
	Risk-weighted assets		1,276,134,605	1,327,322,841	
Capital adequacy ratio (%)			13.71	14.19	
Ratio of common equity to risk-weighted assets (%)			9.19	9.00	
Ratio of Tier 1 capital to risk-weighted assets (%)			10.28	10.30	
Leverage ratio (%)			6.69	6.84	

(Unit: In Thousands of New Taiwan Dollars, %)

Items		Year	December 31, 2015	
			Standalone	Consolidated
Eligible capital	Common equity		\$ 109,386,814	\$ 110,664,625
	Other Tier 1 capital		1,894,276	4,037,931
	Tier 2 capital		43,557,492	47,928,415
	Eligible capital		154,838,582	162,630,971
Risk-weighted assets	Credit risk	Standardized approach	1,112,343,800	1,136,426,589
		Internal ratings-based approach	-	-
		Securitization	8,025	8,025
	Operational risk	Basic indicator approach	-	-
		Standardized approach/alternative standardized approach	50,812,588	51,601,050
		Advanced measurement approach	-	-
	Market risk	Standardized approach	32,340,863	32,340,863
		Internal model approach	-	-
	Risk-weighted assets		1,195,505,276	1,220,376,527
	Capital adequacy ratio (%)		12.95	13.33
Ratio of common equity to risk-weighted assets (%)			9.15	9.07
Ratio of Tier 1 capital to risk-weighted assets (%)			9.31	9.40
Leverage ratio (%)			5.89	6.01

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk - Weighted Assets of Banks.”

Note 2: Formulas used were as follows:

- 1) Eligible capital = Common equity + Other Tier 1 capital + Tier 2 capital.
- 2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of the common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity + Other Tier 1 capital) ÷ Risk-weighted assets.
- 6) Leverage ratio = Tier 1 capital ÷ Exposure measurement.

41. THE BANK'S ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

a. Asset quality: Table 4 (attached).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2016				December 31, 2015		
Rank (Note 1)	Industry of Group Enterprise (Note 2)	Total Amount of Credit Endorsement or Other Transactions (Note 3)	Percentage of Current Year's Equity	Industry of Group Enterprise (Note 2)	Total Amount of Credit Endorsement or Other Transactions (Note 3)	Percentage of Current Year's Equity
1	Group A Ocean transportation	\$ 6,919,876	5.48	Group D Broadcasting of cable and other chargeable programs	\$ 7,611,950	6.48
2	Group B Smelting and refining of iron and steel	6,092,623	4.82	Group A Ocean transportation	7,200,676	6.13
3	Group C Activities of head offices	5,851,503	4.63	Group C Activities of head offices	6,423,566	5.47
4	Group D Broadcasting of cable and other chargeable programs	5,776,779	4.57	Group B Smelting and refining of iron and steel	6,111,810	5.20
5	Group E Manufacture of computers	4,822,651	3.82	Group K Manufacture of liquid crystal panel and components	4,714,232	4.01
6	Group F Activities of head offices	4,657,864	3.69	Group L Manufacture of petrochemical raw materials	4,402,324	3.75
7	Group G Wholesale of computers, computer peripheral equipment and software	4,469,393	3.54	Group M Activities of head offices	4,227,595	3.60
8	Group H Retail sale of computers, computer peripheral equipment and software	4,291,393	3.40	Group I Real estate development	4,176,737	3.55
9	Group I Real estate development	4,173,044	3.30	Group E Manufacture of computers	4,159,073	3.54
10	Group J Merchandise Brokers	3,781,547	2.99	Group N Manufacture of computers	3,980,545	3.39

Note 1: The list shows rankings by total amount of credit, endorsement or other transactions but excludes government-owned or state-run enterprises. If the borrower is a member of a group enterprise, the total amount of credit, endorsement or other transactions of the entire group enterprise must be listed and disclosed by code and line of industry. The industry of the Group enterprise should be presented as the industry of the member firm with the highest risk exposure. The lines of industry should be described in accordance with the Standard Industrial Classification System of the Republic of China published by the Directorate-General of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: Group enterprise refers to a group of corporate entities as defined by Article 6 of "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Total amount of credit, endorsement or other transactions is the sum of various loans (including import and export negotiations, discounts, overdrafts, unsecured and secured short-term loans, margin loans receivable, unsecured and secured medium-term loans, unsecured and secured long-term loans and overdue loans), exchange bills negotiated, accounts receivable factored without recourse, acceptances and guarantees.

c. Interest rate sensitivity information

Interest Rate Sensitivity (New Taiwan Dollars)

(In Thousands of New Taiwan Dollars, %)

December 31, 2016

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,163,048,139	\$ 26,512,574	\$ 39,134,410	\$ 72,854,863	\$ 1,301,549,986
Interest rate-sensitive liabilities	272,585,531	775,342,591	83,214,259	49,823,985	1,180,966,366
Interest rate sensitivity gap	890,462,608	(748,830,017)	(44,079,849)	23,030,878	120,583,620
Net worth					118,796,803
Ratio of interest rate-sensitive assets to liabilities					110.21
Ratio of interest rate sensitivity gap to net worth					101.50

December 31, 2015

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 1,126,065,020	\$ 10,857,942	\$ 11,496,673	\$ 73,639,510	\$ 1,222,059,145
Interest rate-sensitive liabilities	292,370,308	726,128,365	75,652,033	51,926,600	1,146,077,306
Interest rate sensitivity gap	833,694,712	(715,270,423)	(64,155,360)	21,712,910	75,981,839
Net worth					106,937,585
Ratio of interest rate-sensitive assets to liabilities					106.63
Ratio of interest rate sensitivity gap to net worth					71.05

Note 1: The above amounts included only New Taiwan dollar amounts held by the head office and branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in New Taiwan dollars).

Interest Rate Sensitivity (U.S. Dollars)

(In Thousands of U.S. Dollars, %)

December 31, 2016

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 8,160,386	\$ 273,841	\$ 157,871	\$ 985,896	\$ 9,577,994
Interest rate-sensitive liabilities	8,554,635	915,992	1,154,962	1,135,953	11,761,542
Interest rate sensitivity gap	(394,249)	(642,151)	(997,091)	(150,057)	(2,183,548)
Net worth					112,849
Ratio of interest rate-sensitive assets to liabilities					81.43
Ratio of interest rate sensitivity gap to net worth					(1,934.93)

December 31, 2015

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	\$ 7,846,493	\$ 360,455	\$ 81,838	\$ 561,532	\$ 8,850,318
Interest rate-sensitive liabilities	7,271,985	933,054	741,439	735,619	9,682,097
Interest rate sensitivity gap	574,508	(572,599)	(659,601)	(174,087)	(831,779)
Net worth					173,812
Ratio of interest rate-sensitive assets to liabilities					91.41
Ratio of interest rate sensitivity gap to net worth					(478.55)

Note 1: The above amounts included only U.S. dollar amounts held by the head office, domestic branches, OBU and overseas branches of the Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities refer to the revenues or costs of interest-earning assets and interest-bearing liabilities that were affected by interest rate changes.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets/Interest rate-sensitive liabilities (in U.S. dollars).

d. Profitability

Unit: %

Items		December 31, 2016	December 31, 2015
Return on total assets	Before income tax	0.88	0.89
	After income tax	0.75	0.77
Return on equity	Before income tax	12.89	13.07
	After income tax	11.00	11.36
Net income ratio		34.84	34.63

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

Note 2: Return on equity = Income before (after) income tax/Average equity

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

Note 4: Income before (after) income tax represents income from January to each period-end date.

Note 5: The Bank merged with ESIB on March 25, 2016 (the effective date of the combination). Since the combination was essentially a reorganization under common control, the Bank should restate prior years' financial statements assuming the combination had occurred at the beginning when preparing the comparative financial statements; hence, the profitability were calculated with the restated amounts.

e. Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities (New Taiwan Dollars)

(In Thousands of New Taiwan Dollars)

December 31, 2016

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 1,486,184,432	\$ 332,323,100	\$ 89,891,073	\$ 127,067,152	\$ 142,140,794	\$ 234,795,288	\$ 559,967,025
Main capital outflow on maturity	1,817,730,144	63,556,835	90,787,921	179,322,020	199,375,758	307,637,311	977,050,299
Gap	(331,545,712)	268,766,265	(896,848)	(52,254,868)	(57,234,964)	(72,842,023)	(417,083,274)

December 31, 2015

	Total	Remaining Period to Maturity					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 1,375,235,152	\$ 342,737,230	\$ 94,998,135	\$ 112,474,351	\$ 127,590,469	\$ 213,912,796	\$ 483,522,171
Main capital outflow on maturity	1,682,794,356	48,744,094	77,766,697	176,943,619	195,732,688	322,087,528	861,519,730
Gap	(307,559,204)	293,993,136	17,231,438	(64,469,268)	(68,142,219)	(108,174,732)	(377,997,559)

Note: The above amounts included only New Taiwan dollar amounts held by the Bank.

Maturity Analysis of Assets and Liabilities (U.S. Dollars)

(In Thousands of U.S. Dollars)

December 31, 2016

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 16,935,131	\$ 5,183,464	\$ 2,373,940	\$ 2,205,021	\$ 1,679,379	\$ 5,493,327
Main capital outflow on maturity	21,030,407	4,171,298	5,242,162	4,184,679	5,406,242	2,026,026
Gap	(4,095,276)	1,012,166	(2,868,222)	(1,979,658)	(3,726,863)	3,467,301

December 31, 2015

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 14,245,107	\$ 4,941,326	\$ 1,669,966	\$ 1,832,840	\$ 1,658,023	\$ 4,142,952
Main capital outflow on maturity	15,603,114	3,811,464	3,983,642	2,923,342	3,329,884	1,554,782
Gap	(1,358,007)	1,129,862	(2,313,676)	(1,090,502)	(1,671,861)	2,588,170

Note: The above amounts included only U.S. dollar amounts held by the Bank.

42. TRUST BUSINESS UNDER THE TRUST LAW

- a. Trust-related items, as shown in the following balance sheet, statements of income and trust property list

The trust-related items shown below were managed by the Bank's Trust Department. However, these items were not included in the Company's consolidated financial statements.

**Balance Sheets of Trust Accounts
December 31, 2016 and 2015**

Trust Assets	2016	2015	Trust Liabilities	2016	2015
Cash in banks	\$ 5,706,463	\$ 3,838,833	Account payable on securities under custody	\$ 210,773,685	\$ 197,938,446
Short-term investments	190,438,106	180,770,814	Other liabilities	-	2
Land	4,741,097	5,048,499	Trust capital		
Securities under custody	<u>210,773,685</u>	<u>197,938,446</u>	Cash	243,490,153	208,664,445
			Securities	2,562,752	2,310,942
			Real estate	4,836,967	5,047,894
			Reserves and accumulated deficit	(51,777,033)	(29,279,100)
			Net income	<u>1,772,827</u>	<u>2,913,963</u>
Total assets	<u>\$ 411,659,351</u>	<u>\$ 387,596,592</u>	Total liabilities	<u>\$ 411,659,351</u>	<u>\$ 387,596,592</u>

Trust Property List
December 31, 2016 and 2015

	2016	2015
Cash in the Bank	\$ 5,706,426	\$ 3,838,833
Cash in other banks	37	-
Stocks	4,747,414	3,667,531
Mutual funds	161,164,955	159,803,759
Bonds	21,164,127	17,299,524
Structured products	3,100,610	-
Beneficial certificates pending settlement	261,000	-
Land	4,741,097	5,048,499
Securities under custody	<u>210,773,685</u>	<u>197,938,446</u>
	<u>\$ 411,659,351</u>	<u>\$ 387,596,592</u>

Statements of Income on Trust Accounts
For the Years Ended December 31, 2016 and 2015

	2016	2015
<u>Revenues</u>		
Interest	\$ 18,609	\$ 13,549
Cash dividend	5,145,103	5,774,467
Realized capital gain - common stock	807	977
Realized capital gain - bond	329	-
Property gain	1,947,174	2,729,191
Service fee income	-	35
Realized capital gain	1,097,067	688,725
Revenues from beneficial certificates	2,816	1,301
Revenues from rent for stocks	943	45
	<u>8,212,848</u>	<u>9,208,290</u>
<u>Expenses</u>		
Management fees	248,122	302,433
Supervisor fees	70	120
Service fees	1,866	792
Property loss	5,982,814	5,982,099
Income tax	1,191	959
Tax expenditures	1,283	38
Other expenses	13,875	5,845
Realized capital loss	<u>190,800</u>	<u>2,041</u>
	<u>6,440,021</u>	<u>6,294,327</u>
Net income	<u>\$ 1,772,827</u>	<u>\$ 2,913,963</u>

b. Nature of trust business operations under the Trust Law: Note 1.

43. ALLOCATION OF REVENUE, COST AND EXPENSE THAT RESULTED FROM THE SHARING OF RESOURCES BETWEEN E.SUN FINANCIAL HOLDING COMPANY, LTD. AND SUBSIDIARIES

Under cooperation arrangements, the Bank and E.SUN Securities shared some equipment and operating sites; thus, related expenses were allocated as follows:

	Bank	E.SUN Securities	Total	Allocation Method
For the year ended <u>December 31, 2016</u>				
Broadcasting and security systems	\$ 72	\$ 71	\$ 143	50% each
Others	723	627	1,350	Utilities - 50% each Building maintenance fee - based on space actually occupied
	<u>\$ 795</u>	<u>\$ 698</u>	<u>\$ 1,493</u>	
For the year ended <u>December 31, 2015</u>				
Broadcasting and security systems	\$ 72	\$ 71	\$ 143	50% each
Others	742	645	1,387	Utilities - 50% each Building maintenance fee - based on space actually occupied
	<u>\$ 814</u>	<u>\$ 716</u>	<u>\$ 1,530</u>	

The cross-selling transactions between the Bank and E.SUN Securities were as follows (the amounts below refer to the Bank):

	<u>For the Year Ended December 31</u>	
	2016	2015
Revenue	<u>\$ 5,907</u>	<u>\$ 6,001</u>
Expense	<u>\$ 86,431</u>	<u>\$ 75,049</u>

44. EQUITY TRANSACTIONS WITH NON-CONTROLLING INTERESTS

On December 29, 2015, the Bank acquired from non-controlling interests for additional 5% shares of UCB, which increased its continuing interest from 70% to 75%.

The above transaction was accounted for as equity transaction, since the Bank did not cease to have control over the subsidiary.

	UCB
Cash consideration paid	\$ 218,483
The proportionate share of the carrying amount of the net assets of the subsidiary transferred from non-controlling interests	(146,447)
Reattribution of other equity from non-controlling interests	
Exchange differences arising on the translation of the financial statements of foreign operations	12,267
Fair value remeasurement of available-for-sale financial asset	<u>218</u>
Differences arising from equity transaction (reduced retained earnings)	<u>\$ 84,521</u>

45. BUSINESS COMBINATIONS

a. Subsidiary acquired

	Principal Activity	Date of Acquisition	Proportion of Voting Equity Interests Acquired (%)	Consideration Transferred
BankPro E-Service Technology Co., Ltd.	E-commerce application service	January 11, 2016	58.34	<u>\$ 224,437</u>

BankPro was founded in October 2000. BankPro is engaged in retail sale of computer software, software design service, data processing service, digital information supply service and business consultant. The Bank had originally obtained 3.33% of BankPro's outstanding shares. To expand business applying economies of scale, on January 11, 2016, the Bank had acquired 58.34% of outstanding shares of BankPro, and gained control over BankPro.

b. Considerations transferred

Under the share purchase arrangement, the Bank had paid the seller \$224,437 thousand.

Acquisition-related costs were excluded from the consideration transferred and recognized as an expense in the year of acquisition.

c. Assets acquired and liabilities assumed at the date of acquisition

	BankPro
Cash and cash equivalents	\$ 83,786
Receivables, net	184,511
Other financial assets, net	1,000
Properties and equipment, net	2,028
Intangible assets, net	84,567
Deferred tax assets	1,225
Other assets, net	31,287
Payables	(102,829)
Current tax liabilities	(1,255)
Provisions	(4,768)
Other liabilities	<u>(7,710)</u>
	<u>\$ 271,842</u>

The accounts receivable acquired in the combination had a fair value of \$184,511 thousand; the gross contractual amount was \$184,511 thousand.

d. Non-controlling interests

The non-controlling interests recognized at the acquisition date were measured by the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets.

e. Goodwill arising on acquisition

	Amount
Consideration transferred	\$ 224,437
Plus:	
Fair value of BankPro's shares held before acquisition date	8,845
Non-controlling interests	104,206
Less: Fair value of identifiable net assets acquired	<u>(271,842)</u>
Goodwill arising on acquisition	<u>\$ 65,646</u>

Goodwill arose in the acquisition of BankPro because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, and future market development. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

f. Net cash outflow on acquisition of subsidiary

	For the Year Ended December 31, 2016
Consideration paid in cash	\$ 224,437
Less: The balance of acquired cash and cash equivalents under IAS 7	<u>83,786</u>
	<u>\$ 140,651</u>

g. Impact of acquisition on the results of the Company

The profits recognized in the year ended December 31, 2016 due to the Bank's evaluation to the 3.33% holding equity of BankPro prior to the combination were \$4,345 thousand (part of other noninterest gains, net).

From the acquisition date, the business results from BankPro were as follows:

	For the Period from January 11, 2016 to December 31, 2016
Net revenue	<u>\$ 74,826</u>
Net income	<u>\$ 27,260</u>

46. OTHERS

The Bank merged with ESIB on March 25, 2016. In accordance with “IFRS 3 dealing with business combination under common control” under the Q&A to IFRS issued by Accounting Research and Development Foundation (ARDF) of the Republic of China, since the Bank and ESIB are both 100% subsidiaries of ESFHC, and that IFRS 3 “business combinations” does not disclose explicitly the business combinations under common control, the related explanations issued by ARDF should be applied instead.

Under explanations issued by Accounting Research and Development Foundation of the Republic of China, the merger should be treated as a reorganization. In addition, the Bank should recognize all the assets and liabilities of ESIB at carrying amount and retroactively restated the Bank’s financial statements, and also restated prior years’ comparative financial statements assuming the combination had occurred at the beginning. The Bank acquired ESIB’s assets and liabilities through a share swap at a ratio of 1:3.91, with 44,183 thousand of new shares issued and the net assets of ESIB amounted to \$792,214 thousand.

ESIB’s financial performance for the year ended December 31, 2015 is reflected in the Bank’s corresponding consolidated statements of comprehensive income. The Bank’s consolidated financial statements for the year ended December 31, 2015 have been restated retrospectively.

On June 29 2016, the Bank’s board of directors resolved the acquisition of an additional 25% equity interest in UCB for an estimated transaction price of US\$39,931 thousand. This acquisition is still awaiting the approval of the authorities. If this acquisition is completed, the percentage of the Bank’s ownership to UCB will increase from 75% to 100%.

47. ADDITIONAL DISCLOSURES

a. Significant transactions and investees:

- 1) Financing provided: Not applicable.
- 2) Endorsement/guarantee provided: Not applicable.
- 3) Marketable securities held: Not applicable.
- 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital (the Bank disclosed its investments acquired or disposed of): Table 5 (attached).
- 5) Acquisition of individual real estate at costs of at least NT\$300 million or 10% of the paid-in capital: Table 6 (attached).
- 6) Disposal of individual real estate at costs of at least NT\$300 million or 10% of the paid-in capital: None.
- 7) Financial asset securitization: None.
- 8) Allowance of service fees to related parties amounting to at least NT\$5 million: None.
- 9) Receivables from related parties amounting to at least NT\$300 million or 10% of the paid-in capital: None.
- 10) Sale of nonperforming loans: None.

11) Other significant transactions which may affect the decisions of users of financial reports: Note 46 to the consolidated financial statements.

12) Related information and proportionate share in investees: Table 7 (attached).

13) Derivative transactions: Notes 8 and 39 to the consolidated financial statements.

b. Investment in Mainland China:

Based on “Regulations Governing Approvals of Banks to Engage in Financial Activities between the Taiwan Area and the Mainland Area,” the Bank set up the Dongguan Branch in Mainland China.

The FSC approved the Bank’s establishment in China of a subsidiary, ESBC, with an estimated capital of CNY2 billion. In March 2015, the China Bank Regulatory Commission (CBRC) also approved this establishment and required the Bank to first set up ESBC as a preparatory office responsible for establishing a banking business. When ESBC became ready to operate, it applied to CBRC again for its formal launch. In January 2016, ESBC began its formal launch after acquiring the CBRC’s approval and obtaining an operating license. The registered capital of ESBC is CNY2 billion, and the Bank remitted to ESBC an investment of CNY1 billion in May 2015. The remainder of the registered capital was transferred from the operating capital of the Bank’s Dongguan Branch, an entity which had earlier been reorganized as ESBC’s Dongguan Branch. ESBC has been opened on March 11, 2016.

The information on major operating items, paid-in capital, methods of investment, investment inflows and outflows, proportion of stockholdings, investment income or loss, book value at period-end, the remitted investment profits and the limit on the amount of investment in Mainland China is shown in Table 8 (attached).

c. Business relationship and significant transactions among the parent company and subsidiaries: Table 9 (attached).

48. OPERATING SEGMENTS

The information reported to the Company’s chief operating decision makers for the assessment of segment performance focuses mainly on operation and profitability. The Company’s reportable segments are as follows:

- a. Corporate Banking Unit, which handles corporate loans, foreign exchange business, and financial banking operations;
- b. Individual Banking Unit, which handles residential mortgage, unsecured personal loans (UPLs), wealth management, and credit cards;
- c. Others, including the business other than those handled by the Corporate Banking and Individual Banking units.

The accounting policies of the reportable segments are the same as the Company’s accounting policies described in Note 4. Segment profit is measured at income before income tax, and this measure is reported to the chief operating decision makers for the purposes of resource allocation and assessment of segment performance. The terms of transactions between segments are similar to those for third parties.

The revenues, expenses and related information of the Company's reportable segments were as follows:

(In Millions of New Taiwan Dollars)

	For the Year Ended December 31, 2016			
	Corporate Banking Unit	Individual Banking Unit	Others	Total
Net interest revenues (expenses)	<u>\$ 5,124</u>	<u>\$ 15,219</u>	<u>\$ (1,924)</u>	<u>\$ 18,419</u>
Total net revenues	\$ 14,451	\$ 25,429	\$ 397	\$ 40,277
Bad-debt expenses and provision for losses on guarantees	(1,226)	(676)	(1,560)	(3,462)
Operating expenses	<u>(3,725)</u>	<u>(15,381)</u>	<u>(2,278)</u>	<u>(21,384)</u>
Income (loss) before income tax	<u>\$ 9,500</u>	<u>\$ 9,372</u>	<u>\$ (3,441)</u>	<u>\$ 15,431</u>

	For the Year Ended December 31, 2015			
	Corporate Banking Unit	Individual Banking Unit	Others	Total
Net interest revenues (expenses)	<u>\$ 4,725</u>	<u>\$ 13,836</u>	<u>\$ (1,308)</u>	<u>\$ 17,253</u>
Total net revenues	\$ 12,925	\$ 23,128	\$ 1,233	\$ 37,286
Bad-debt expenses and provision for losses on guarantees	(1,405)	(1,744)	(417)	(3,566)
Operating expenses	<u>(3,279)</u>	<u>(14,124)</u>	<u>(1,640)</u>	<u>(19,043)</u>
Income (loss) before income tax	<u>\$ 8,241</u>	<u>\$ 7,260</u>	<u>\$ (824)</u>	<u>\$ 14,677</u>

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED ENTITIES
DECEMBER 31, 2016 AND 2015

Entities included in the consolidated financial statements

Investor Company	Investee Company	Location	Businesses and Products	Percentage of Ownership (%)		Note
				December 31, 2016	December 31, 2015	
E.SUN Commercial Bank, Ltd.	E.SUN Bank (China), Ltd. Union Commercial Bank PLC. BankPro E-Service Technology Co., Ltd.	China Cambodia Taipei	Banking Banking Information software	100.00 75.00 61.67	100.00 75.00 3.33	Note 1 Note 2
Union Commercial Bank PLC.	URE Land Holding Co., Ltd.	Cambodia	Real estate leasing and management	90.00	90.00	Note 3

Entities did not include in the consolidated financial statements

Investor Company	Investee Company	Location	Businesses and Products	Percentage of Ownership (%)		Note
				December 31, 2016	December 31, 2015	
None						

Note 1: For more information on E.SUN Bank (China), Ltd., please refer to Note 47.

Note 2: For more information on BankPro E-Service Technology Co., Ltd., please refer to Note 45.

Note 3: Union Commercial Bank PLC. holds a 49% interest in URE Land Holding Co., Ltd. In the Articles of Incorporation of URE Land Holding Co., Ltd., Union Commercial Bank PLC. has power to control the composition of the board of directors and owns at least 90% of economic benefit of URE Land Holding Co., Ltd.; hence, URE Land Holding Co., Ltd. is deemed as a subsidiary of Union Commercial Bank PLC.

TABLE 2

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

RELATED-PARTY TRANSACTIONS
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars)

Loans

December 31, 2016

Type	Account Volume or Name	Highest Balance for the Year Ended December 31, 2016 (Note)	Ending Balance	Loan Classification		Collateral	Differences in Terms of Transaction from Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
Consumer loans	114	\$ 54,477	\$ 37,022	\$ 37,022	-	Land and buildings as collateral for part of the loans	None
Self-used residential mortgage	273	1,295,513	1,081,953	1,081,953	-	Land and buildings	None
Other loans	Other loans	906,039	748,545	748,545	-	Land, buildings, plant and other properties	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	3,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	22,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	4,500	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	2,700	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	3,800	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	8,100	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	21,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	4,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	17,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	27,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,300	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	12,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	35,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	18,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	35,000	-	-	-	Certificate of deposits	None

(Continued)

December 31, 2015

Type	Account Volume or Name	Highest Balance for the Year Ended December 31, 2015 (Note)	Ending Balance	Loan Classification		Collateral	Differences in Terms of Transaction from Those for Unrelated Parties
				Normal Loans	Nonperforming Loans		
Consumer loans	122	\$ 74,699	\$ 49,667	\$ 49,667	\$ -	Land and buildings as collateral for part of the loans	None
Self-used residential mortgage	255	1,055,937	923,996	923,996	-	Land and buildings	None
Other loans	Other loans	943,370	789,539	789,539	-	Land, buildings, plant and other properties	None
Other loans	E.SUN Securities	15,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	15,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	8,700	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	8,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	15,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	15,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	7,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	3,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	4,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	26,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	19,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	11,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,500	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	7,400	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	6,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	8,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	30,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	5,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	24,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	5,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	13,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	26,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	4,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	15,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	10,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	8,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	2,000	-	-	-	Certificate of deposits	None
Other loans	E.SUN Securities	3,000	-	-	-	Certificate of deposits	None

Note: The sum of the respective highest balances of each account for the years ended December 31, 2016 and 2015.

(Concluded)

TABLE 3**E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES****INFORMATION ON FOREIGN-CURRENCY FINANCIAL ASSETS AND LIABILITIES WITH SIGNIFICANT EFFECT
DECEMBER 31, 2016 AND 2015
(In Thousands)**

	December 31					
	2016			2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>						
USD	\$ 12,354,538	32.2790	\$ 398,792,132	\$ 10,056,432	32.9000	\$ 330,856,613
CNY	12,695,174	4.6218	58,674,555	16,084,701	4.9967	80,370,426
AUD	1,432,714	23.3180	33,408,025	689,092	23.9970	16,536,141
HKD	3,199,479	4.1622	13,316,871	2,694,871	4.2447	11,438,919
JPY	18,246,547	0.2758	5,032,398	18,787,941	0.2732	5,132,865
EUR	113,946	33.9250	3,865,618	149,750	35.9400	5,382,015
SGD	102,691	22.3150	2,291,550	28,626	23.2575	665,769
NZD	31,420	22.4310	704,782	11,645	22.5170	262,210
GBP	14,141	39.6320	560,436	5,004	48.7680	244,035
CHF	7,444	31.5720	235,022	6,797	33.2960	226,313
ZAR	731,694	2.3681	1,732,725	39,340	2.1161	83,247
CAD	5,143	23.9330	123,087	6,177	23.7310	146,586
SEK	5,704	3.5429	20,209	2,206	3.9103	8,626
THB	20,744	0.9019	18,709	80,721	0.9119	73,609
MXN	3,786	1.5588	5,902	3,997	1.8930	7,566
MYR	-	-	-	77	7.6640	590
VND	349,659,483	0.0014	489,523	6,672,048	0.0015	10,008
MMK	75,552	0.0237	1,791	-	-	-
<u>Financial liabilities</u>						
USD	14,464,577	32.2790	466,902,081	11,332,667	32.9000	372,844,744
CNY	11,971,485	4.6218	55,329,809	13,617,067	4.9967	68,040,399
AUD	1,082,102	23.3180	25,232,454	829,134	23.9970	19,896,729
HKD	2,141,253	4.1622	8,912,323	1,786,150	4.2447	7,581,671
JPY	36,905,999	0.2758	10,178,675	29,652,163	0.2732	8,100,971
EUR	257,837	33.9250	8,747,120	18,088	35.9400	650,083
SGD	63,079	22.3150	1,407,608	22,980	23.2575	534,457
NZD	109,904	22.4310	2,465,257	49,112	22.5170	1,105,855
GBP	89,994	39.6320	3,566,642	28,424	48.7680	1,386,182
CHF	7,207	31.5720	227,539	6,148	33.2960	204,704
ZAR	2,323,844	2.3681	5,503,095	2,455,014	2.1161	5,195,055
CAD	124,587	23.9330	2,981,741	54,600	23.7310	1,295,713
SEK	19,342	3.5429	68,527	12,394	3.9103	48,464
THB	12,325	0.9019	11,116	18,463	0.9119	16,836
MXN	20,981	1.5588	32,705	18,687	1.8930	35,374
VND	351,553,135	0.0014	492,174	5,879,991	0.0015	8,820
MMK	37,984	0.0237	900	-	-	-

TABLE 4

E.SUN COMMERCIAL BANK, LTD.

ASSET QUALITY - NONPERFORMING LOANS AND RECEIVABLES
DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, %)

Period		December 31, 2016					December 31, 2015				
	Items	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate Banking	Secured	\$ 411,832	\$ 258,887,774	0.16	\$ 2,847,198	691.35	\$ 266,386	\$ 221,321,993	0.12	\$ 2,503,664	939.86
	Unsecured	219,654	297,017,890	0.07	3,459,253	1,574.86	298,980	291,569,057	0.10	3,570,578	1,194.25
Consumer Banking	Housing mortgage (Note 4)	489,821	276,059,502	0.18	3,969,853	810.47	285,813	267,915,888	0.11	3,857,602	1,349.69
	Cash card	188	3,767	4.99	1,596	848.94	139	5,214	2.67	2,074	1,492.09
	Small-scale credit loans (Note 5)	601,347	91,293,797	0.66	1,098,611	182.69	446,685	79,921,836	0.56	968,052	216.72
	Secured	362,778	181,905,038	0.20	1,859,213	512.49	44,531	155,768,150	0.03	1,586,815	3,563.39
Loan	Other (Note 6)	26,871	6,785,699	0.40	69,561	258.87	7,914	7,247,832	0.11	74,430	940.49
	Unsecured	2,112,491	1,111,953,467	0.19	13,305,285	629.84	1,350,448	1,023,749,970	0.13	12,563,215	930.30
		Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Receivables	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Credit cards		147,276	55,698,347	0.26	1,232,146	836.62	106,804	45,537,607	0.23	1,422,107	1,331.51
Accounts receivable factored without recourse (Note 7)		177	12,186,866	-	148,566	83,935.59	-	17,750,474	-	246,795	-
Amounts of executed contracts on negotiated debts not reported as nonperforming loans (Note 8)		23,148				32,783					
Amounts of executed contracts on negotiated debts not reported as nonperforming receivables (Note 8)		88,011				118,316					
Amounts of executed debt-restructuring projects not reported as nonperforming loans (Note 9)		996,008				906,398					
Amounts of executed debt-restructuring projects not reported as nonperforming receivables (Note 9)		1,190,354				1,186,792					

Note 1: Nonperforming loans are reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."

Nonperforming receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loans balance.

Ratio of nonperforming receivables: Nonperforming receivables ÷ Outstanding receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of receivables: Allowance for possible losses for receivables ÷ Nonperforming receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumers' banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 0945000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Note 8: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 9: Amounts of executed debt-restructuring projects not reported as nonperforming loans or receivables are disclosed to the public in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

TABLE 5

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED AT COSTS OR PRICES OF AT LEAST \$300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Type and Name of Marketable Securities	Financial Statement Account	Counterparty	Relationship	Beginning Balance		Acquisition		Disposal			Gain (Loss) on Disposal		Ending Balance	
					Shares	Amount	Shares	Amount	Shares	Amount	Carrying Amount			Shares	Amount
E.SUN Commercial Bank, Ltd.	E.SUN Bank (China), Ltd.	Equity investment under equity method	-	-	-	\$ 4,915,815	-	\$ 5,598,718 (Notes 1 and 3)	-	\$ -	\$ 948,486 (Notes 2 and 3)	\$ -	-	-	\$ 9,566,047 (Note 3)

Note 1: Consisting of \$5,598,718 thousand transferred from Dongguan Branch, which had been reorganized as E.SUN Bank (China), Ltd.'s Dongguan Branch. For more information on E.SUN Bank (China), Ltd., please refer to Note 47.

Note 2: Consisting of \$68,079 thousand as the net loss from equity investment under the equity method and \$880,407 thousand as the net loss on other comprehensive loss from equity investment under the equity method.

Note 3: When preparing the consolidated financial statements, the amount had been eliminated.

TABLE 6

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$300 MILLION OR 10% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Name	Property	Transaction Date	Transaction Amount	Payment Term/ Payment Status	Counterparty	Nature of Relationship	Prior Transaction of Related Counterparty			Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date			
E.SUN Commercial Bank, Ltd.	Construction of new building for the operation of credit card and payment division	2013.06.21 2016.06.29	\$ 1,592,000 (Note)	\$1,432,800 has been paid as of December 31, 2016	Hsin Tung Yang Construction Co., Ltd.	-	-	-	-	Bid	For the operation of the Bank's credit card and payment division after construction completed	None
Union Commercial Bank Plc.	Construction of new building for the operation of UCB's head office	2014.12.18	US\$ 21,835 thousand	US\$7,735 thousand has been paid as of December 31, 2016	LBL International	-	-	-	-	Negotiation	For the operation of UCB's head office	None
E.SUN Commercial Bank, Ltd.	Construction of new building for Yiwu branch of the Bank	2015.06.12	410,800	\$164,320 has been paid as of December 31, 2016	Zhonglu Construction Co., Ltd., Mr. Lee, Mr. Lee	-	-	-	-	Appraisal	For relocating the branch of the Bank	None

Note: The initial transaction amount was \$1,498,000 thousand, and an additional amount of \$94,000 thousand was added to the construction on June 29, 2016.

E.SUN COMMERCIAL BANK, LTD.**INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)**

Investor Company	Investee Company	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain	Proportionate Share of the Bank and its Affiliates in Investees (Note 1)				Note
							Shares (Thousands)	Pro Forma Shares (Note 2)	Shares (Thousands)	Percentage of Ownership	
E.SUN Commercial Bank, Ltd. (the Bank)	Finance-related business										
	Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	\$ 2,000	\$ 640	160	-	160	0.81	
	Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	0.45	9,000	2,941	1,377	-	1,377	0.45	
	Financial Information Service Co., Ltd.	Taipei	Information service	2.28	108,954	33,251	11,876	-	11,876	2.28	
	Taiwan Asset Management Corporation	Taipei	Acquisition of delinquent loans	0.57	75,000	5,966	7,500	-	7,500	0.57	
	Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000	-	5,000	-	5,000	2.94	
	Taiwan Finance Corp.	Taipei	Bills financing	0.41	21,355	1,272	2,120	-	2,120	0.41	
	Sunny Asset Management Co.	Taipei	Acquisition of delinquent loans	4.35	2,607	311	261	-	261	4.35	
	Taiwan Mobile Payment Co.	Taipei	Information service	3.00	18,000	-	1,800	-	1,800	3.00	
	BankPro E-Service Technology Co., Ltd.	Taipei	E-commerce application service	61.67	238,701	20,217	8,650	-	8,650	64.07	Note 3
	Union Commercial Bank Plc.	Phnom Penh	Commercial banking	75.00	2,310,299	(492,704)	28	-	28	75.00	
	E.SUN Bank (China), Ltd.	Cambodia Shenzhen, China	Commercial banking	100.00	9,566,047	(68,079)	-	-	-	100.00	Note 4
	Non-finance-related business										
	Taiwan Incubator Small & Medium Enterprises Development Co., Ltd.	Taipei	Small and medium enterprise incubation	3.44	18,171	-	2,425	-	2,425	3.44	
	EASYPICARD Investment Holding Co., Ltd.	Taipei	Investment	4.82	218,951	4,056	5,013	-	5,013	4.82	
	Alliance Digital Tech Co.	Taipei	Information service	2.16	9,000	-	900	-	900	2.16	

Note 1: Shares or pro forma shares held by the Bank, directors, supervisors, president, vice president and affiliates have been included in accordance with the Company Act.

Note 2: a. Pro forma shares are shares that are assumed to be obtained through buying equity-linked securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.

b. Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of "Securities and Exchange Law Enforcement Rules."

c. Derivative contracts, such as stock options, are those conforming to the definition of derivatives in International Accounting Standards No. 39.

Note 3: For more information on BankPro E-Service Technology Co., Ltd., please refer to Note 45.

Note 4: For more information on E.SUN Bank (China), Ltd., please refer to Note 47.

TABLE 8

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	% Ownership of Direct or Indirect Investment	Investment Loss	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow					
Dongguan Branch	Deposits, loans, import and export, exchange and foreign exchange business	\$ -	Direct	\$ 4,828,742 (Note 1)	\$ -	\$ 4,828,742 (Note 3)	\$ -	-	\$ (1,976)	\$ -	-
E.SUN Bank (China), Ltd. (Note 3)	Deposits, loans, import and export, exchange and foreign exchange business	9,758,742 (Notes 1 and 3)	Direct	4,930,000 (Note 1)	4,828,742 (Note 3)	-	9,758,742 (Note 1)	100	(68,079)	9,566,047	-

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amount Approved by the Investment Commission, MOEA	Maximum Investment Allowable (Note 2)
\$9,758,742 (Note 1)	\$9,758,742 (Note 1)	\$76,220,718

Note 1: Translation into New Taiwan dollars at the spot rates on the dates of investment outflow from Taiwan.

Note 2: Based on the Investment Commission's "Regulation on the Examination of Investment or Technical Cooperation in Mainland China," investments are limited to larger of 60 % of the Bank's net assets value or 60% of the Company's consolidated net assets value.

Note 3: The registered capital of E.SUN Bank (China), Ltd. (ESBC) is CNY2 billion, and the Bank remitted to ESBC an investment of CNY1 billion. The remainder of the registered capital was transferred from the operating capital of Dongguan Branch, an entity which had earlier been reorganized as ESBC's Dongguan Branch. For more information on ESBC, please refer to Note 47.

E.SUN COMMERCIAL BANK, LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS BETWEEN THE PARENT COMPANY AND SUBSIDIARIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Transaction Company	Counterparty	Transaction Flow (Note 2)	Description of Transactions (Notes 3 and 5)		
				Financial Statement Account	Amounts	Trading Terms
0	E.SUN Commercial Bank, Ltd.	Union Commercial Bank Plc.	a	Due to the Central Bank and other banks	\$ 668,836	Note 4
1	Union Commercial Bank Plc.	E.SUN Commercial Bank, Ltd.	b	Cash and cash equivalents	668,836	Note 4
0	E.SUN Commercial Bank, Ltd.	Union Commercial Bank Plc.	a	Discounts and loans	1,460,517	Note 4
1	Union Commercial Bank Plc.	E.SUN Commercial Bank, Ltd.	b	Other financial liabilities	1,460,517	Note 4
0	E.SUN Commercial Bank, Ltd.	E.SUN Bank (China), Ltd.	a	Due from the Central Bank and call loans to other banks	3,712,085	Note 4
2	E.SUN Bank (China), Ltd.	E.SUN Commercial Bank, Ltd.	b	Due to the Central Bank and other banks	3,712,085	Note 4
						Transaction Amount/Total Consolidated Net Revenue or Total Consolidated Assets (%)
						0.04
						0.04
						0.08
						0.08
						0.20
						0.20

Note 1: The parent company and subsidiaries are numbered as follows:

- a. Parent company: 0
- b. Subsidiaries are numbered in an order starting from 1.

Note 2: Transaction flows are as follows:

- a. From parent company to subsidiary,
- b. From subsidiary to parent company, and
- c. Between subsidiaries.

Note 3: For calculating the percentages, asset or liability account is divided by the total consolidated assets and the revenue or expense account is divided by the total consolidated net revenue of the same period.

Note 4: The terms for the transactions between the transaction companies and related parties are similar to those for unrelated parties.

Note 5: Referring to transactions exceeding \$100,000 thousand.



Expertise. Service. Business



Set the standard for sustainable growth

Component of
Dow Jones Sustainability Index (DJSI) since 2014

Since 1992, E.SUN has set the standard for Taiwanese financial service with its professionalism, prudence management, and excellent customer service. In the next decade, E.SUN will focus on the mission to strengthen business Taiwan, to build up the Asian platform, and to be the pioneer of financial innovation. E.SUN will continue to be the best in overall performance and most respected bank.

E.SUN Commercial Bank, Ltd.

Chairman of the Board

March 30, 2017 Printed

With our Heartfelt Appreciation and Eternal Blessing.



Service Network of E.SUN Bank

Branch	phone	Branch	phone	Branch	phone
Head Office Business Division	+886 2 2719 1313	SinBan District Branch	+886 2 2954 1313	Caotun Branch	+886 4 9238 1313
Customer Service Division	+886 2 2175 1313	Guangfu Branch	+886 2 2957 1313	Changhua Branch	+886 4 728 1313
International Banking Department/OBU	+886 2 2175 1313	Sanchung Branch	+886 2 2280 1313	Yuanlin Branch	+886 4 836 1313
Trust Department	+886 2 2175 1313	Chongsin Branch	+886 2 2984 1313	Douliou Branch	+886 5 532 1313
Credit Card and Payment Division	+886 2 8512 1313	Er-Chong Branch	+886 2 2278 1313	Chiayi Branch	+886 5 223 1313
Nanching East Road Branch	+886 2 2760 1313	East Sanchung Branch	+886 2 2971 1313	East Chiayi Branch	+886 5 216 1313
Chengjhong Branch	+886 2 2389 1313	Tucheng Branch	+886 2 2274 1313	Puzih Branch	+886 5 379 1313
Chengtung Branch	+886 2 2504 1313	SouthTucheng Branch	+886 2 2267 1313	Tainan Branch	+886 6 241 1313
Hsinyi Branch	+886 2 8789 1313	Shulin Branch	+886 2 8675 1313	East Tainan Branch	+886 6 289 1313
Keelungroad Branch	+886 2 2378 1313	Hueilong Branch	+886 2 2689 1313	Jinhua Branch	+886 6 291 1313
Tienmu Branch	+886 2 2835 1313	Wugu Branch	+886 2 2290 1313	Annan Branch	+886 6 357 1313
Minsheng Branch	+886 2 2509 1313	Sindian Branch	+886 2 2916 1313	Chiali Branch	+886 6 721 1313
Songjiang Branch	+886 2 2562 1313	Beisin Branch	+886 2 8911 1313	Yanhang Branch	+886 6 253 1313
Fuhsing Branch	+886 2 2771 1313	Sanxia Branch	+886 2 8970 6613	Yungkang Branch	+886 6 201 1313
Tunnnan Branch	+886 2 2754 1313	Lujhou Branch	+886 2 2848 1313	South Yungkang Branch	+886 6 313 1313
Changchun Branch	+886 2 2546 1313	Taishan Branch	+886 2 2297 1313	Rende Branch	+886 6 270 6613
Chungshan Branch	+886 2 2537 1313	Xizhi Branch	+886 2 2647 6613	Sinying Branch	+886 6 656 8813
Neihu Branch	+886 2 2659 1313	Taoyuan Branch	+886 3 332 1313	Kaohsiung Branch	+886 7 336 1313
Chenggong Branch	+886 2 2791 8813	South Taoyuan Branch	+886 3 337 1313	Dashun Branch	+886 7 727 1313
Songshan Branch	+886 2 3765 1313	Taoyin Branch	+886 3 375 1313	Lingya Branch	+886 7 716 1313
Heping Branch	+886 2 2362 1313	Linkou Branch	+886 3 396 1313	Cianjhen Branch	+886 7 761 1313
Mincyuan Branch	+886 2 2568 1313	Nankan Branch	+886 3 352 1313	Chihhsien Branch	+886 7 235 1313
Jhonglun Branch	+886 2 2731 1313	Bade Branch	+886 3 367 1313	Zuoying Branch	+886 7 559 1313
Daan Branch	+886 2 2755 1313	Yiwen Branch	+886 3 357 1313	Nanzih Branch	+886 7 364 1313
Guting Branch	+886 2 2364 1313	Zhongyuan Branch	+886 3 428 1313	North Kaohsiung Branch	+886 7 350 1313
Beitou Branch	+886 2 2895 1313	Jhongli Branch	+886 3 427 1313	Dachang Branch	+886 7 341 1313
Donghu Branch	+886 2 2632 1313	Lisin Branch	+886 3 492 1313	Chengcing Branch	+886 7 386 1313
Xinhu Branch	+886 2 8791 6613	Yangmei Branch	+886 3 488 1313	Siaogang Branch	+886 7 807 1313
Shilin Branch	+886 2 2834 1313	Hsinchu Branch	+886 3 523 1313	Fongshan Branch	+886 7 743 1313
Mujha Branch	+886 2 2936 1313	Guanghua Branch	+886 3 533 1313	Gangshan Branch	+886 7 621 1313
Jhongsiao Branch	+886 2 8772 1313	Juke Branch	+886 3 564 1313	Linyuan Branch	+886 7 643 1313
Dongmen Branch	+886 2 2321 1313	JhuBei Branch	+886 3 554 1313	Houjhuang Branch	+886 7 702 1313
Jiancheng Branch	+886 2 2556 1313	Sinfong Branch	+886 3 557 1313	Pingtung Branch	+886 8 733 1313
Nangang Branch	+886 2 2789 1313	Lioujia Branch	+886 3 658 9013	Donggang Branch	+886 8 835 1313
Renai Branch	+886 2 2708 1313	Jhunan Branch	+886 3 746 1313	Keelung Branch	+886 2 2427 1313
Taipei Branch	+886 2 2507 1313	Toufen Branch	+886 3 766 3571	Luodong Branch	+886 3 957 1313
Ruiguang Branch	+886 2 2797 8813	Houlong Branch	+886 3 773 1313	Hualien Branch	+886 3 831 1313
Hsinchuang Branch	+886 2 2202 1313	Taichung Branch	+886 4 2254 1313	Taitung Branch	+886 8 936 1313
North Hsinchuang Branch	+886 2 2997 1313	Wunsin Branch	+886 4 2291 1313	Penghu Branch	+886 6 927 1313
Sinshu Branch	+886 2 2203 1313	Dadun Branch	+886 4 2320 1313	Los Angeles Branch	+1 626 810 2400
Shwangho Branch	+886 2 2923 1313	Nantun Branch	+886 4 2380 1313	Hong Kong Branch	+852 3405 6168
Yonghe Branch	+886 2 2949 1313	Situn Branch	+886 4 2461 1313	Singapore Branch	+65 6533 1313
Jixian Branch	+886 2 8283 1313	Daya Branch	+886 4 2568 1313	Dong Nai Branch	+84 61 367 1313
Yung An Branch	+886 2 8921 1313	Fongyuan Branch	+886 4 2512 1313	Yangon Branch	+95 1 9345186~190
Jhonghe Branch	+886 2 2222 1313	Jhonggong Branch	+886 4 2350 8913	Sydney Branch	+61 2 9295 1399
Liancheng Branch	+886 2 8228 1313	Beitun Branch	+886 4 2241 6813	Hanoi City Representative Office	+84 4 35551313
Nanshijiao Branch	+886 2 2942 8813	Shalu Branch	+886 4 2662 1813	E.SUN Bank (China)	+86 755 8898 1313
Taihe Branch	+886 2 2242 1313	Dali Branch	+886 4 2418 1313	Shenzhen Branch	+86 755 8360 1313
Banciao Branch	+886 2 8257 1313	Wuquan Branch	+886 4 2377 1313	Dongguan Branch	+86 769 2868 1313
Puchain Branch	+886 2 2963 1313	Taiping Branch	+886 4 2270 8813	Dongguan Changan Sub-branch	+86 769 2330 8813
Banhsin Branch	+886 2 8952 1313	Wurih Branch	+886 4 2260 8813	Union Commercial Bank Plc.	+855 23 427 995



玉山銀行 E.SUN BANK

No.117, Sec.3, Minsheng E. Rd., Taipei City 10546, Taiwan

TEL/+886 2 2175-1313 FAX/+886 2 2719-9313

<https://www.esunbank.com.tw>